FOREWORD

The Reserve Bank of India regularly brings out the Report on Currency and Finance, which was traditionally considered as a comprehensive source and record of economic developments. The structure of this Report has been re-oriented since 1998-99 from just documenting the economic developments to a 'theme-based report'. The theme-based Report offers the professional economists working in the Bank, an opportunity to work on relevant topic every year and make incisive analysis of the theme both in the global and the Indian context and come out with an analytical Report offering possible policy solutions to the issues examined. The dissemination of these Reports to a wider section of the user-community is an important exercise. The Report pertaining to the period between 1935-36 and 1998-99 are available only in printed form. The Reports from 1999-2000 have been placed on the Reserve Bank's website. In these days of widespread use of information technology, it is felt useful to bring out the Reports in a single DVD. I hope this will be an invaluable collector's item among the policy makers and academia.

The digitization process of the Reports was undertaken by Shri Ashok Kapoor, Chief Archivist, Reserve Bank of India Archives and supported by the services of Smt. Sandhya Dhavale, Assistant Librarian, under the guidance of Shri K.U.B. Rao, Adviser, Department of Economic Analysis and Policy and Shri Sandip Ghose, Principal and Chief General Manager, College of Agricultural Banking, Pune. I place on record my deep appreciation of their efforts.

Mumbai
April 1, 2009

(Rakesh Mohan)
Deputy Governor
Reserve Bank of India

REPORT ON CURRENCY AND FINANCE





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1985-86

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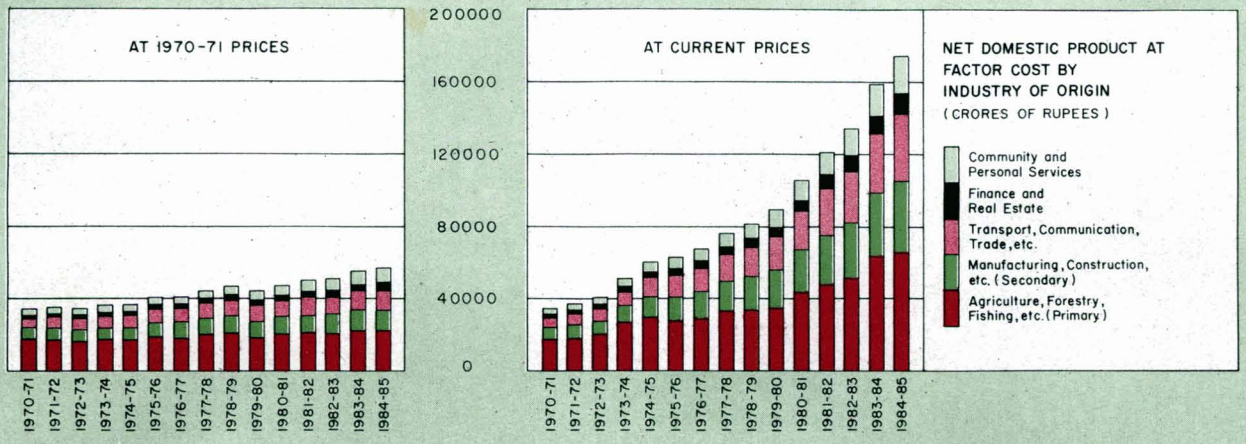
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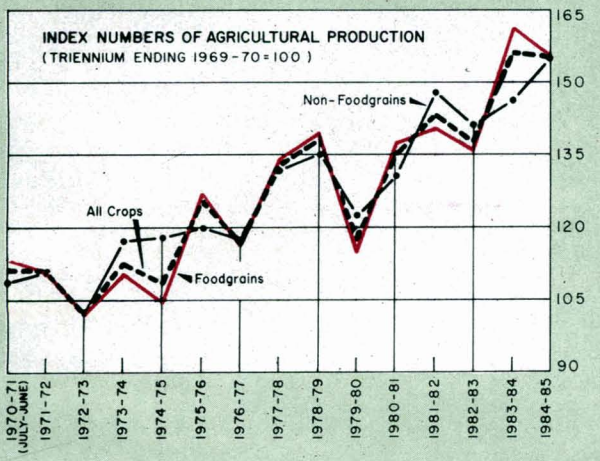
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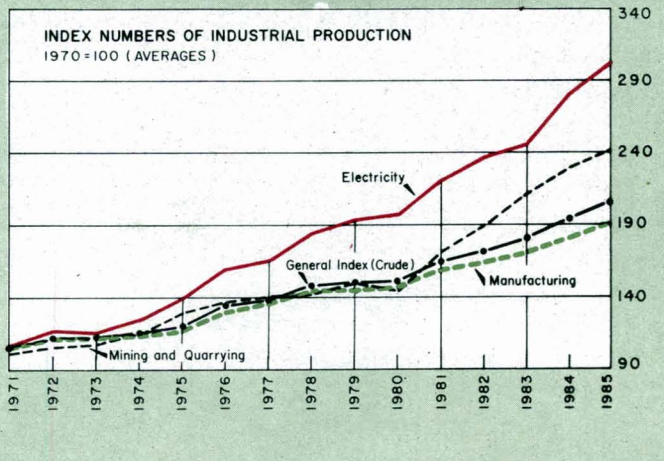
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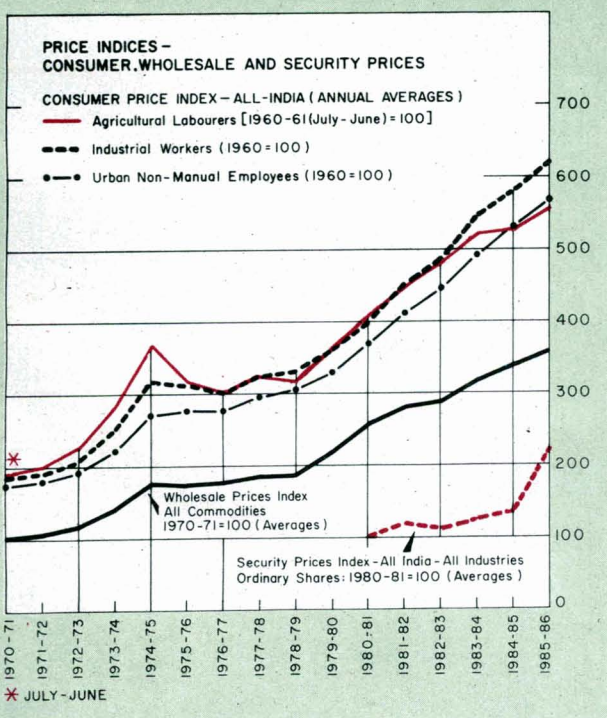
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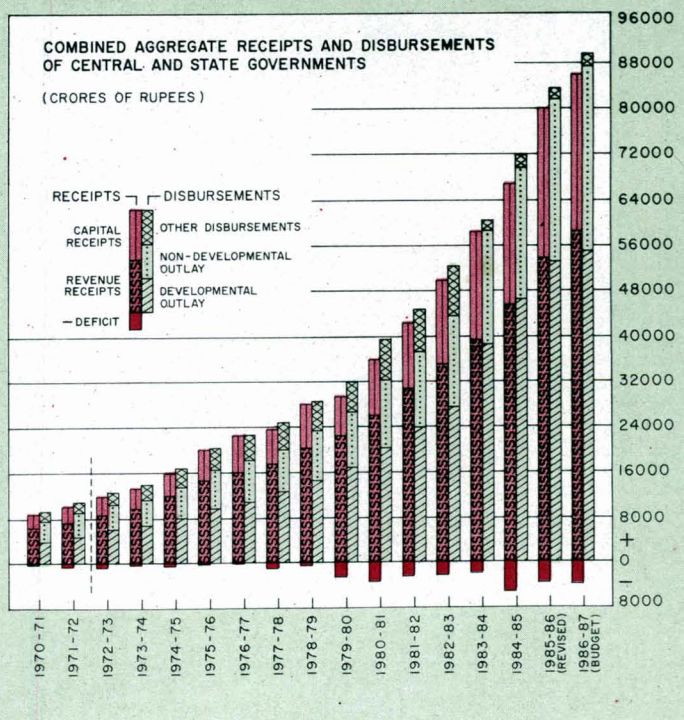
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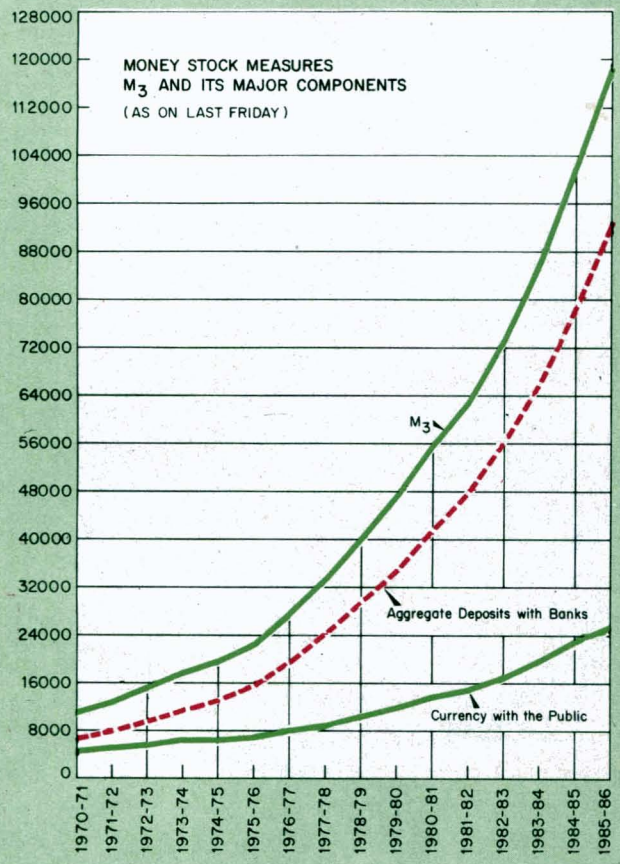


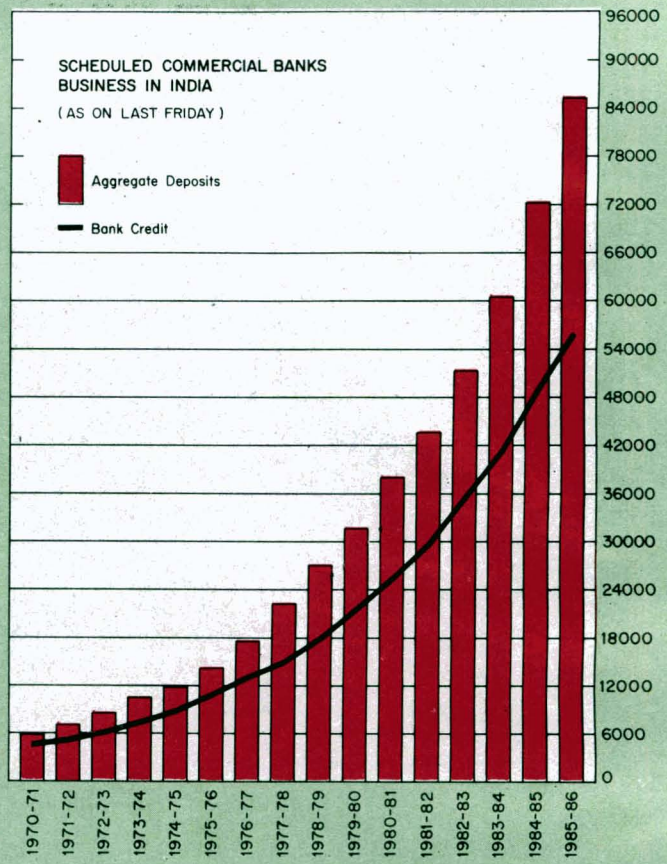


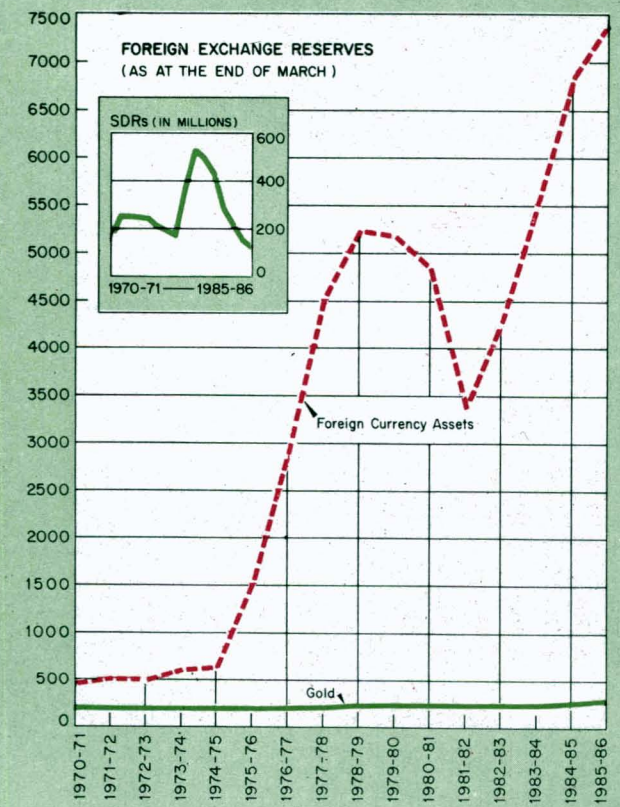


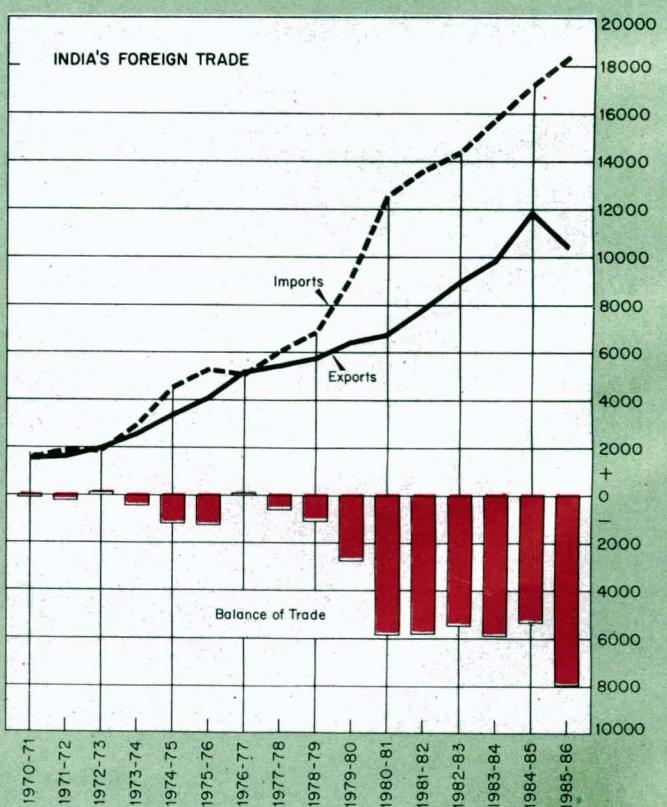
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Chapter I

Review and Outlook*

The rate of growth in gross domestic product in real terms during 1985-86 is estimated higher at over 4.5 per cent as compared with 3.7 per cent in 1984-85. However, for the second year in succession the growth rate has been below five per cent. The average annual growth rate during the Sixth Plan was 5.4 per cent, while the Seventh Plan aims at sustaining this growth rate at 5 per cent.

Agricultural production during 1985-86 is estimated to have recorded a growth of about 1.5 per cent over the marginal decline of 0.9 per cent witnessed in 1984-85. Foodgrains production in 1985-86 at 150.5 million tonnes was no doubt 4.9 million tonnes higher than the 1984-85 output, but was well below the targeted level of 159.2 million tonnes, due mainly to a decline in production of coarse grains on account of drought conditions in Southern, Central and Western India and floods in parts of UP. On the other hand, in the industrial sector, the growth rate showed a decline from 6.8 per cent in 1984-85 to 6.3 per cent in 1985-86 against a target of 8 per cent for the Seventh Plan. On the external front, exports recorded a decline of 4.1 per cent as against a rise of 18.0 per cent in the previous year whereas imports showed a much sharper increase (by about 17.3 per cent) than that recorded in 1984-85 (7.3 per cent). As a result, balance of payments situation was under pressure. However, the main source of strength in the economic picture was the deceleration in inflation. Wholesale prices, on a point-to-point basis showed a marked deceleration to 3.8 per cent in 1985-86 from 7.6 per cent in the previous year. In 1985, rainfall was normal or excessive in 26 sub-divisions only, out of a total of 35 sub-divisions as against 28 in 1984. Rainfall was scanty or deficient in 9 sub-divisions as against 7 in 1984. This factor, together with unfavourable timing and duration of rainfall reduced coarse grains production significantly to the extent of 4.7 million tonnes. This loss in output of coarse grains crop affected overall *kharif* foodgrains output during the year. *Kharif* foodgrains output at 86.0 million tonnes in 1985-86 was marginally higher than that during the preceding year. This was, however, short of the target by 2.2 million tonnes. This marginal fall as compared to targeted growth in *kharif* output was, however, made up by the improved performance of the *rabi* crop. *Rabi* output at 64.5 million tonnes during 1985-86 was 3.5 million tonnes higher than the output in the previous year. Despite the sharp decline in coarse grains output, *kharif* output, as already stated was hovering around 1984-85 level. This was because rice production recorded a new peak of 64.1 million tonnes during 1985-86 which was 5.8 million tonnes higher than the output during the preceding year. The significant

*Chapters II to XI incorporate data/information released upto mid-October 1986. Chapter I, however, is based on more uptodate data/information.

improvement in *rabi* outturn during the year could be attributed to wheat, production of which at 46.9 million tonnes was not only higher than the previous year's output of 44.1 million tonnes but was also better than the record output of 45.5 million tonnes in 1983-84. Pulses output during 1985-86 at 13.0 million tonnes was about 1 million tonnes higher than the previous year's level.

Among commercial crops, jute and mesta production scaled a new peak during the year; as against 7.8 million bales last year, production during the year was placed at 12.7 million bales. For the second year in succession cotton output was maintained at the high level of 85-86 lakh bales. Sugarcane production rose marginally by 1.4 million tonnes to 171.7 million tonnes. Oilseeds production declined sharply by 1.8 million tonnes to 11.2 million tonnes.

Increased procurement of wheat and rice has been a natural concomitant of the high levels of production attained and the steady step-up in procurement prices. Procurement of rice during 1985-86 *kharif* marketing season (October-September) aggregated 9.8 million tonnes which was almost at the same level as that in the preceding year. Wheat procurement during the marketing year 1985-86 (April-March) at 10.3 million tonnes was over 1 million tonnes more than in the previous year. Procurement of wheat from April 1 to November 21, 1986 was 10.5 million tonnes as against 10.3 million tonnes in the corresponding period of last year.

The monthly average offtake of foodgrains had shown a decline, commencing from October 1983. The monthly average offtake which was 1.35 million tonnes in 1983 declined to 1.12 million tonnes in 1984. In 1985, however, the monthly average offtake rose to 1.29 million tonnes which was, however, less than the average offtake of 1983 by 0.06 million tonnes. With procurement continuing at a high level, stocks of foodgrains with the Government increased. Stocks with the Government reached a record level of 28.65 million tonnes as at the end of June 1985, comprising 20.73 million tonnes of wheat and 7.75 million tonnes of rice. A series of measures were taken by the Government to step up the offtake of foodgrains, particularly that of wheat. These measures included supply of wheat to roller flour mills at a reduced price of Rs.172 per quintal, auctioning of wheat to traders, increased allocation for anti-poverty programmes launched by the Government and allocation through public distribution system without restrictions on quantity of supply. As a result of these measures the offtake of wheat during the financial year 1985-86 went up by nearly 3.0 million tonnes or by 46 per cent to 9.8 million tonnes. A major part of this increased offtake was accounted for by roller flour mills. Offtake of rice during 1985-86 at 7.1 million tonnes was also higher than that during 1984-85 namely 6.6 million tonnes.

The rate of growth in industrial production showed some deceleration from 6.8 per cent in 1984-85 (revised) to 6.3 per cent (provisional) in 1985-86. Component-wise, the deceleration was sharpest in electricity, the growth rate having declined from 12.0 per cent in 1984-85 to 8.6 per cent in 1985-86. In mining and quarrying, the rate of growth during 1985-86 was 4.6 per cent as compared to 8.1 per cent during the preceding year. However, in the manufacturing sector, which accounts for a weightage of 81.08 per cent in the index, the growth rate of 6.1 per cent was higher than that of 5.7 per cent in 1984-85. Unlike in the preceding year, growth rate was higher in the latter half of 1985-86 as compared with the first half of the year. The growth rate in each quarter of the second half was higher than that during the corresponding quarters of the previous year. In the case of manufacturing sector, barring the second quarter, the growth rate was higher in all the quarters of 1985-86 than the corresponding quarters of 1984-85. The data on use-based classification of industrial production show that capital goods, intermediate goods and consumer goods recorded higher growth rates in 1985-86.

The six infrastructure industries with a total weight of 24.2 per cent in the general index recorded a lower growth of 8.2 per cent during 1985-86 as compared with 9.9 per cent during

1984-85. The decline in the growth rate was accounted by four industries, viz. electricity, coal (excluding lignite), petroleum crude and cement. However, petroleum refinery products and saleable steel showed an increase in growth rate. Petroleum refinery products showed a higher growth rate of 20.1 per cent in 1985-86 as compared with 1.1 per cent in 1984-85 due to increase in domestic refining capacity and commissioning of new projects. Production of saleable steel increased by 11.1 per cent during the year under review as compared with 9.4 per cent in 1984-85 due to increased capacity utilisation by six integrated steel plants. Among the four infrastructure industries which showed a deceleration in growth rate, coal production showed a deceleration from 6.7 per cent to 4.7 per cent, but in absolute terms increased to 154.3 million tonnes from 147.4 million tonnes in 1984-85. Cement production at 33.1 million tonnes in 1985-86 was 2.9 million tonnes higher than the production in 1984-85; the rate of increase was 9.7 per cent as against 11.5 per cent in 1984-85. Production of the remaining two infrastructure industries, viz., electricity and petroleum crude also had shown an increase in absolute terms though, in percentage terms there was a deceleration.

There was a moderate deceleration in monetary expansion during the fiscal year 1985-86. Expansion of broad money (M_3) at 15.8 per cent in 1985-86 was lower than that of 18.7 per cent in 1984-85. This slow-down in the growth of broad money was due mainly to the sharp decline in the growth rate of the most important component of broad money, viz. aggregate deposits with banks to 17.9 per cent from 19.2 per cent in 1984-85. The growth rate of demand deposits at 11.0 per cent was less than half that of in 1984-85. Time deposits on the other hand showed an increase from 17.9 per cent in 1984-85 to 19.7 per cent in 1985-86.

The slow-down in monetary expansion during 1985-86 was due mainly to lower expansion of bank credit to commercial sector and a substantial fall in the accrual to foreign exchange assets. Bank credit to commercial sector showed a smaller expansion of 15.2 per cent as compared with 18.0 per cent in 1984-85. This was due to lower expansion in RBI's credit to the commercial sector. Accruals to net foreign exchange assets of the banking sector, which had shown a substantial rise of Rs.1,467 crores in 1984-85 came down to Rs.299 crores in 1985-86. Net bank credit to Government, however, registered a large increase in absolute terms of Rs.9,530 crores as compared with Rs.8,445 crores in the previous year. The growth rate, however, was lower by 1.3 per cent points. The increase was largely attributable to net RBI credit to Government which at Rs.9,127 crores was about three times larger than that during 1984-85. Other banks' credit to Government rose by Rs.403 crores only as against Rs.5,296 crores in 1984-85.

On the price front, there was a perceptible improvement during the fiscal year 1985-86 with the wholesale prices showing a deceleration for the third year in succession. On a point-to-point basis, the rise in wholesale prices during 1985-86 was 3.8 per cent as compared with 7.6 per cent in 1984-85 and 8.9 per cent in 1983-84. Prudent demand-supply management aided in bringing about this marked deceleration on the price front. During the first phase covering eighteen weeks upto the first week of August 1985, there was a sharp upswing in prices with the wholesale price index recording an increase of 5.7 per cent. This was however lower than the 7.6 per cent increase during the corresponding period of 1984-85. During the subsequent period till the end of first week of January 1986 (January 4, 1986), wholesale price index declined by 2.7 per cent. During the period January 4, 1986 to end-March 1986 prices showed a slow but continuous uptrend with the wholesale price index showing an increase of 1.0 per cent.

Taking the year as a whole, the marked deceleration in wholesale prices was brought about by all the three major groups, viz. 'primary articles', 'fuel, power, light and lubricants' and 'manufactured products'. In the major group 'primary articles', the sub-group 'fibres' declined sharply by 36.9 per cent as against the

increase of 14.6 per cent noticed during 1984-85. Within the 'fibres' group, prices of raw jute, showed a fall of 72 per cent in 1985-86. The index of raw cotton also showed a sharp decline. The other commodities which showed lower increases or larger declines during the year were pulses and tea. However, indices of commodities such as rice, wheat, fruits and vegetables, etc. showed larger increases than in 1984-85. In the major group 'manufactured products' the indices of textiles group and cement showed sharp declines of 7.9 per cent and 6.0 per cent,respectively,as against the increases of 8.6 per cent and 15.7 per cent noticed during 1984-85.Within this group, jute, hemp and mesta textiles recorded a decline of 43 per cent during the year. The other commodities in this major group which recorded lower increases or larger declines were gur, paper and paper products. However, commodities/commodity groups such as sugar and khandsari showed larger increases. The major group 'fuel, power, light and lubricants' showed a lower order of increase during 1985-86 due mainly to the lower increase in the index of 'mineral oils'. However, the index of 'coal' showed an increase of13.8 per cent in sharp contrast to the static price situation in 1984-85.

On the external front, the substantial widening of trade deficit during 1985-86 exerted pressure on the balance of payments position. With no significant improvement in the international trade environment, the country's exports declined by 4.1 per cent to Rs.11,006 crores as against a rise of 18.0 per cent in the previous year. The sharp drop in exports of crude oil from Rs.1,563 crores during 1984-85 to Rs.135 crores in 1985-86 due to rapid development in domestic refining capacity adversely affected India's export trade. Imports on the other hand, surged by 17.3 per cent to Rs.19,622 crores during 1985-86 as compared to an increase of 7.3 per cent in 1984-85. Available information indicates that the sharp rise in the import volume of some bulk commodities like crude oil, iron and steel and a few industrial raw materials was mainly responsible for the sharp increase in imports, resulting in a substantial widening of trade deficit. The external payments position, which had shown a marked improvement in 1984-85 came under strain during the year. The country's foreign exchange reserves (SDRs, gold and foreign currency assets of RBI) increased during 1985-86 to Rs.577 crores only as compared to that of Rs.1,271 crores during 1984-85. Excluding the repayment of Rs.253 crores to the IMF, reserves would show an increase of Rs.830 crores during 1985-86 as compared to that of Rs.1,201 crores during 1984-85 (excluding the net drawings of Rs.70 crores from the IMF). In SDR terms, India's foreign exchange reserves showed a decline of SDR 276 million in 1985-86, as against an increase of SDR 696 million in the previous year. Excluding capital transactions with the IMF referred to above, these reserves would show a fall of SDR 78 million in 1985-86 as compared with a rise of SDR 629 million in 1984-85.

The outlook for growth during 1986-87 may be considered better than that during 1985-86. On the agricultural front, foodgrains production targets have been missed during the last two years due to adverse weather conditions. Information which is available for the period June 1 to September-end 1986 shows that rainfall was deficient/inadequate in 14 out of the 35 meteorological sub-divisions. During the corresponding period of the previous year, 9 meteorological sub-divisions experienced deficient/inadequate rainfall. Growth rate in fertilizer consumption during 1986-87 is expected to be lower. On the basis of these indicators, *kharif* foodgrains output of 1986-87 may not exceed the 1985-86 out-turn of about 86 million tonnes. The *rabi* output may turn out to be better than last year in view of the comfortable supply of vital inputs like seeds and fertilizers. Even then, it may not be possible to achieve the overall foodgrains target of 160 million tonnes for 1986-87.

As regards non-foodgrain crops, the prospects are mixed. The cotton crop is projected to be lower than last year, but at about the same level as in 1984-85. The 1986-87 jute and mesta crop is expected to be lower in the region of 70 lakh bales, as against 127 lakh bales

in 1985-86. Hence, both in the case of cotton and raw jute, the supply position will be comfortable on account of stocks from the previous year's crops. Following the increase in the minimum statutory price of sugarcane, its output may surpass last year's level of 171.7 million tonnes. Oilseeds production may turn out to be marginally higher than last year's level of 11.2 million tonnes.

The average rate of growth in industrial production during the first quarter of 1986-87 (April-June) at 5.3 per cent was slightly lower than that of 5.8 per cent achieved in the corresponding period of the previous year. While the growth in output in 'mining and quarrying' and 'electricity' at 6.4 per cent and 10.4 per cent was substantially higher, compared to an increase of 1.1 per cent and 7.8 per cent, respectively, in the corresponding period of 1985-86, the growth in the 'manufacturing' sector (with a total weight of 81.08 in the general index) showed only 4.1 per cent increase in the first quarter, compared with 6.1 per cent recorded in the corresponding period of 1985-86. This has been a cause of concern.

Advance production figures for the first five months of the current financial year (April to August) in respect of six infrastructure industries (with readjusted weight of 24.25 per cent in the general index) show an increase of 7.0 per cent compared to the 6.8 per cent increase recorded during the same period of 1985-86. Three infrastructure industries viz. electricity, petroleum crude and coal recorded higher increases in output compared to that achieved during the same period of 1985 while, the other two, namely, petroleum refinery products and cement registered lower increases. Output of saleable steel declined sharply by 3.9 per cent compared to an increase of 12.4 per cent during April-August 1985.

The prospects for industrial growth during 1986-87 appear encouraging and industrial production is expected to pick-up in the remaining months of 1986-87. The expected better performance of agriculture during 1986-87 would ensure adequate availability of agricultural raw materials. Power supply is also expected to be higher than last year. The investment climate has also improved as reflected in the data on consents for capital issues granted by C.C.I. and the present buoyancy in the capital market.

Expansion of broad money (M_3) during the first half (April-September) of fiscal 1986-87 at Rs.7,878 crores was higher by 6.7 per cent as compared to Rs.6,593 crores or 6.5 per cent in the corresponding period of the previous year. The currency and demand deposit components as also the overall reserve money have shown wide fluctuations. While currency with the public rose by Rs.129 crores (0.5 per cent) demand deposits increased by Rs.1,131 crores (6.2 per cent) compared with a decline of Rs.122 crores (0.5 per cent) in the former and a marginal increase of Rs.191 crores (1.2 per cent) in the latter during the corresponding period of 1984-85. The overall reserve money showed a modest increase of Rs.363 crores (1.0 per cent) compared with a substantial increase of Rs.3,048 crores (9.7 per cent) during the first half of the previous financial year. However, there have been sizeable fluctuations in the level of reserve money. Apart from 'currency with the public', the two other components of the reserve money viz. 'other deposits with RBI' and 'bankers deposits with the RBI' showed violent fluctuations. While the former showed only a modest decline of Rs.46 crores (18.3 per cent) during the first half of 1986-87 as against a much sharper decline of Rs.379 crores (62.9 per cent) during the corresponding period of the previous financial year, the latter showed only a modest increase of Rs.195 crores (1.7 per cent) compared to the sharp increase of Rs.3,439 crores (49.0 per cent) during the same period of 1985-86. Source-wise, the expansion in M_3 during the first half of 1986-87 was due to an increase in net bank credit to the Government of Rs.6,662 crores (11.4 per cent) compared to an increase of Rs.5,287 crores (10.8 per cent) in the corresponding period of 1985-86. While the increase in RBI's net credit during the first half of 1986-87 was substantially lower at Rs.1,285 crores (3.3 per cent) compared to Rs.4,544 crores (15.3 per cent) during

the comparable period of 1985-86, other banks' credit to the Government sector at Rs.5,377 crores was substantially larger than that of Rs.743 crores in 1985-86. The bank credit to the commercial sector in the first half of 1986-87 expanded only by 2.3 per cent, compared to an increase of 3.9 per cent during the same period of 1985-86.

There are signs of a rising trend in prices in the more recent period. On a point to point basis, the increase in the wholesale price index in the current financial year has been of the order of 6.4 per cent upto November 1, 1986 as compared with 4.0 per cent in the corresponding period of the previous year. The all commodities index on an average basis during the first 31 weeks of 1986-87 increased by 4.9 per cent as against 6.1 per cent during the corresponding period of the previous year. A matter of greater concern, however, is the behaviour of consumer prices which have been moving up at a rapid pace during this period. During the first six months of 1986-87 the average of CPI moved up by 8.7 per cent as compared with an increase of 5.7 per cent in the corresponding period of 1985-86. In view of these signals on the price front, the stance of the monetary policy has to be one of continued caution, while at the same time meeting the genuine credit requirements of the various sectors in the economy.

Foreign exchange reserves (foreign currency assets of RBI, SDRs and gold) registered a decline of Rs.682 crores during the first seven months of 1986-87 (April to October) as against an increase of Rs.199 crores during the corresponding period of fiscal year 1985-86. A substantial fall in reserves during June and July 1986 has been followed by a rise of Rs.67 crores during the months of August to October 1986. In terms of SDRs, foreign exchange reserves recorded a decline of SDR 903 million during April to October 1986-87 as against a decline of SDR 94 million during the same period of 1985-86. The deterioration in balance of payments during the early part of 1986-87 is due mainly to larger debt service payments including repurchases from the IMF. For the year 1986-87 as a whole, the sharp drop in oil prices may reduce the import bill on crude oil and fertilizers, but this may be partly offset by the rise in imports of non-bulk items to meet the growing investment needs of the economy. Exports in the first quarter of 1986-87 as compared with the provisional data for the corresponding quarter of 1985-86 showed a rise of 25 per cent in rupee terms. However, compared with the revised data for the first quarter of 1985-86, the improvement may not be that high. The net inflow of non-resident deposits under FCNRA Scheme during April to October 1986 at Rs.794 crores was nearly 30 per cent higher than in the corresponding period of 1985-86. Further, revenues from foreign tourists are expected to show an increase during the year. The repurchase obligation to the IMF is larger this year. Remittances by Indians resident abroad in view of the dwindling revenues of the oil exporting countries in West Asia may be lower. Taking both positive and negative factors into account, while the balance of payments position is not easy, it is manageable as far as 1986-87 is concerned.

The performance of agriculture during 1986-87 may turn out to be better than that of 1985-86. The various policies initiated by Government for accelerating industrial investment may trigger industrial pick-up later during the year. With both agriculture and industry expected to grow faster, the rate of growth of real national income in 1986-87 may exceed that of 1985-86.

Chapter II

National Income, Saving and Investment

On the basis of key macro-economic aggregates, the real growth (at 1970-71 prices) in national income during 1985-86 is estimated around 4.0 per cent[1] against 3.5 per cent in 1984-85. The modest increase in the rate of growth reflects an increase of about 1.0 per cent in agricultural output and an increase of 6.3 per cent in industrial production in 1985-86. The net saving-income ratio during 1985-86 is estimated to have declined marginally compared to 1984-85, a rise in the household sector's saving in 1985-86 being accompanied by a sharp decline in the saving of the public sector. With the near stability in the domestic saving ratio and the estimated increase in the net inflow of foreign resources as compared with 1984-85, the ratio of net investment to Net National Product (NNP) at current market prices showed a notable rise during the year.

A. Trends in National Income

1. Estimates for 1984-85

As per the Quick Estimates of the Central Statistical Organisation (CSO), the real NNP at

1 On the basis of more recent data relating to agricultural production, the growth in net national product is estimated to be about 4.5 per cent. Accordingly, net domestic saving and aggregate net investment will be 16.1 per cent and 18.1 per cent of net national product at current market prices, respectively, instead of 16.2 per cent and 18.2 per cent indicated in this Chapter.

Table II-1: Trends in Net National Product and Per Capita Income

Description	1981-82	1982-83	1983-84	1984-85	1985-86
1	2	3	4	5	6
1. Net National Product (NNP) (Rupees Crores)					
At 1970-71 Prices	49,935	51,119	55,100	57,014	59,323
	(5.1)	*(2.4)*	*(7.8)*	*(3.5)*	*(4.0)*
At Current Prices	1,20,691	1,33,457	1,57,830	1,73,207	1,90,479
	(14.1)	*(10.6)*	*(18.3)*	*(9.7)*	*(10.0)*
2. Per Capita Income (Rupees)					
At 1970-71 Prices	719	721	761	772	786
	(2.9)	*(0.3)*	*(5.5)*	*(1.4)*	*(1.8)*
At Current Prices	1,739	1,882	2,180	2,344	2,523
	(11.6)	*(8.2)*	*(15.8)*	*(7.5)*	*(7.7)*
3. Net National Product at Current Market Prices (Rupees Crores)	1,37,605	1,52,632	1,79,495	1,96,956	2,20,760
	(14.9)	*(10.9)*	*(17.6)*	*(9.7)*	*(12.1)*

Sources and Notes: 1. Estimates upto 1983-84 are provisional and for 1984-85 are Quick Estimates by the Central Statistical Organisation, Government of India.

2. Figures for 1985-86 are tentative and estimated at real growth rate of 4.0 per cent in NNP.

3. Figures in brackets are percentage changes over the previous year.

factor cost (at 1970-71 prices) is estimated to have increased by 3.5 per cent in 1984-85 to Rs.57,014 crores as compared with the increase of 7.8 per cent in 1983-84. The real per capita income accordingly increased by only 1.4 per cent to Rs.772 in 1984-85, as compared with an increase of 5.5 per cent in 1983-84 (Table II-1). In nominal terms, NNP at factor cost increased by as much as 9.7 per cent to Rs.1,73,207 crores in 1984-85, as compared with the increase of 18.3 per cent in 1983-84. Similarly, per capita income in nominal terms went up by 7.5 per cent to Rs.2,344 in 1984-85, as compared with the increase of 15.8 per cent in 1983-84.

The low growth rate in national income during 1984-85 is attributable mainly to the setback in the performance of the agricultural sector. Income generated in that sector (at 1970-71 prices) declined by 1.5 per cent in contrast to an impressive increase of 10.6 per cent in 1983-84. As a result, the share of 'primary sector' in aggregate Net Domestic Product (NDP) (at 1970-71 prices) declined from 40.8 per cent in 1983-84 to 39.0 per cent in 1984-85. The NDP originating in the 'secondary sector' rose by 5.0 per cent as compared with a rise of 4.7 per cent in 1983-84 resulting in a slight increase in its share in aggregate NDP from 20.7 per cent in 1983-84 to 21.0 per cent in 1984-85. Industry-wise, income generated in 'manufacturing', 'electricity, gas and water supply', and 'construction' registered increases of 5.1 per cent, 10.8 per cent and 2.6 per cent, respectively in 1984-85.

There was also some step-up in income generated in the 'services sector', which increased by 7.4 per cent in 1984-85 as compared with 7.2 per cent in 1983-84. Income generated in all the three segments of this sector recorded increases during the year: 'transport, communication and trade' recorded an increase of 5.0 per cent, 'finance and real estate' of 7.9 per cent and 'community and personal services' of 10.6 per cent.

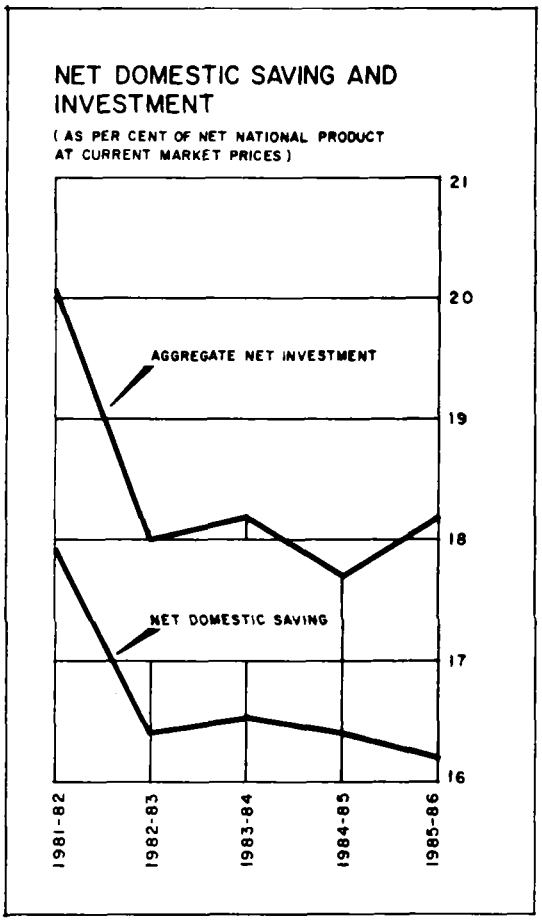
2. Performance during 1985-86

Official estimates of national income for 1985-86 are not yet available. On the basis of an estimated increase in agricultural production of about 1.0 per cent and a slight decline in the rate of growth of industrial production from 6.8 per cent in 1984-85 to 6.3 per cent in 1985-86, the growth in real national income during the year has been tentatively estimated around 4.0 per cent.

Table II-2: Estimates of Net Domestic Saving and Investment as Percentage of Net National Product at Current Market Prices (Provisional)

Description	1983-84	1984-85	1985-86
1	2	3	4
1. Net Domestic Saving	16.5	16.4	16.2
2. Net Inflow of Foreign Resources	1.7	1.3	2.0
3. Aggregate Investment (1+2)	18.2	17.7	18.2

Note: The estimates presented here may differ from those presented in the Reserve Bank's *Annual Report 1985-86* as the same have been revised in the light of fresh data.



B. Aggregate Saving and Investment

Net domestic saving in 1985-86 is provisionally estimated at 16.2 per cent of NNP[2] (at current market prices) as compared with 16.4 per cent in 1984-85 indicating a marginal decline in saving ratio. The net aggregate investment as a proportion of NNP is, however, estimated to have gone up from 17.7 per cent in 1984-85 to 18.2 per cent in 1985-86, due to higher net inflow of foreign resources at 2.0 per cent of NNP as compared with 1.3 per cent of NNP in 1984-85 (Table II-2).

C. Trends in Domestic Saving

The net domestic saving in 1985-86 is provisionally estimated at Rs.35,638 crores as compared with Rs.32,248 crores in 1984-85. Despite the increase of 10.5 per cent in absolute terms in net domestic saving in 1985-86, the net domestic saving-income ratio shows a marginal decline from 16.4 per cent in 1984-85 to 16.2 per cent in 1985-86 because of a much higher growth rate in NNP at current market prices in 1985-86. In terms of broad sectors, the share of the household sector in net domestic saving continued to be dominant and increased from 89.6 per cent in 1984-85 to 91.4 per cent in 1985-86, and the share of the domestic private corporate sector increased from 3.8 per cent to 4.8 per cent. The share of public sector's saving declined sharply from 6.6 per cent to 3.8 per cent. In absolute terms, the net household sector's saving increased by Rs. 3,688 crores to Rs. 32,577 crores in 1985-86 and that of the domestic private corporate sector by Rs. 458 crores to Rs. 1,701 crores. As against this, the public sector's saving declined sharply by Rs. 756 crores to Rs. 1,360 crores during the year under review (Table II-3).

1. Saving of the Household Sector

The saving of the household sector (the household sector comprises apart from individuals, all non-government non-corporate enterprises) is in the form of (a) financial assets and (b) physical assets, the former being measured as addition to financial assets net of financial liabilities. The saving of the household sector is estimated to have risen signific-

[2] Here and subsequently, unless otherwise indicated, saving and investment rates have been worked out in relation to NNP at current market prices.

Table II-3: Estimates of Net Domestic Saving: Sector-wise (Provisional)

(Rupees crores at current prices)

Description	1983-84	1984-85	1985-86
1	2	3	4
1. Public Sector	3,211	2,116	1,360
	(10.9)	(6.6)	(3.8)
Per cent of Net National Product at Market Prices	*1.8*	*1.1*	*0.6*
2. Domestic Private Corporate Sector (including co-operatives)	748	1,243	1,701
	(2.5)	(3.8)	(4.8)
Per cent of Net National Product at Market Prices	*0.4*	*0.6*	*0.8*
3. Household Sector	25,663	28,889	32,577
	(86.6)	(89.6)	(91.4)
Per cent of Net National Product at Market Prices	*14.3*	*14.7*	*14.8*
4. Total Net Domestic Saving (1+2+3)	**29,622**	**32,248**	**35,638**
	(100.0)	**(100.0)**	**(100.0)**
Per cent of Net National Product at Market Prices	*16.5*	*16.4*	*16.2*

Note: Figures in brackets represent percentages to total.

antly from Rs. 25,663 crores in 1983-84 to Rs.28,889 crores in 1984-85 and further to Rs. 32,577 crores in 1985-86; as a proportion of NNP it rose from 14.3 per cent to 14.7 per cent and further to 14.8 per cent during the same period (Table II-4).

Table II-4: Saving of the Household Sector (Provisional)

(Rupees crores at current prices)

Description	1983-84	1984-85	1985-86
1	2	3	4
1. Financial Assets (gross)	19,358	23,788	25,605
Per cent of Net National Product at Market Prices	*10.8*	*12.1*	*11.6*
2. Physical Assets	11,154	10,240	12,583
Per cent of Net National Product at Market Prices	*6.2*	*5.2*	*5.7*
3. Financial Liabilities	4,849	5,139	5,611
Per cent of Net National Product at Market Prices	*2.7*	*2.6*	*2.5*
4. Total Net Saving (Net of Financial Liabilities) (1+2−3)	25,663	28,889	32,577
Per cent of Net National Product at Market Prices	*14.3*	*14.7*	*14.8*

(a) Financial Assets

Although the household sector's saving in financial assets (net of liabilities) recorded an increase of Rs.1,345 crores to Rs.19,994 crores in 1985-86, its share in total saving of the households declined from 64.5 per cent in 1984-85 to 61.4 per cent in 1985-86; it was 56.5 per cent in 1983-84. As a proportion of NNP, it declined from 9.5 per cent in 1984-85 to 9.1 per cent in 1985-86.

The acquisition of financial assets (gross) by the household sector has increased from Rs.19,358 crores in 1983-84 to Rs.23,788 crores in 1984-85 and further to Rs.25,605 crores in 1985-86. As a proportion of NNP, these assets increased from 10.8 per cent in 1983-84 to 12.1 per cent in 1984-85 but declined to 11.6 per cent in 1985-86. The marginal decline in the ratio of financial assets in 1985-86 was mainly on account of the sharply reduced currency component and a decline in the deposit component offset to some extent by a perceptible increase in households' claims on government (Table II-5)

(i) Currency

The addition to currency holding of the households declined by Rs.753 crores from Rs.2,958 crores in 1984-85 to Rs.2,205 crores in 1985-86. Accordingly, as a proportion of NNP it declined from 1.5 per cent in 1984-85 to 1.0 per cent in 1985-86. Its share in total financial assets which had declined from 14.2 per cent in 1983-84 to 12.4 per cent in 1984-85, declined further to 8.6 per cent.

(ii) Deposits

Household sector's saving in the form of deposits with commercial banks, co-operative banks and credit/non-credit societies, and non-banking companies is included under this instrument. Such deposits rose from Rs.9,571 crores in 1983-84 to Rs.11,346 crores in 1984-85 and further to Rs.11,957 crores in 1985-86 indicating a rise of Rs.1,775 crores during 1984-85 while the rise in 1985-86 was of only Rs.611 crores. Thus, the household sector's saving in the form of deposits declined from 5.8 per cent of NNP in 1984-85 to 5.4 per cent of NNP during the year under review.

The decline in the ratio is probably indicative of the greater availability of alternative savings media with attractive returns and fiscal incentives. The lower rise in deposits in absolute terms in 1985-86 reflected the lower rate of growth in aggregate deposits of the commercial banks. Deposits of the household sector with commercial banks which had increased from Rs.7,022 crores in 1983-84 to Rs.9,058 crores in 1984-85 showed a modest increase to Rs.9,425 crores during 1985-86. The deposits with co-operative banks and credit societies increased by Rs.238 crores to Rs.1,117 crores during 1985-86. The deposits with non-banking companies (financial and non-financial) have been estimated at Rs.1,274 crores in 1985-86 as against Rs.1,279 crores in 1984-85 and Rs.1,049 crores in 1983-84 indicating stagnation in 1985-86. The share of saving in the form of currency and deposits in total financial assets which showed a decline from 63.7 per cent in 1983-84 to 60.1 per cent in 1984-85 declined further to 55.3 per cent in 1985-86 indicating the preference of the household sector for other forms of saving instruments.

(iii) Social Security Funds

The financial saving of households through insurance, provident and pension funds which are contractual in nature are next in importance to deposits. As compared to a significant increase of Rs.656 crores in 1984-85, the saving in these funds has been estimated to have risen by Rs.301 crores to Rs.5,334 crores during 1985-86; its share in total financial assets declining from 21.1 per cent in 1984-85 to 20.9 per cent in 1985-86. As a proportion of NNP, it recorded a decline by 0.2 per cent to 2.4 per cent.

Saving in the form of insurance includes changes in the Life Fund of Life Insurance Corporation of India (LIC), postal insurance,

Table II-5: Composition of Financial Saving of Household Sector (Gross) (Provisional)

(Rupees crores at current prices)

Asset	1983-84	1984-85	1985-86
1	2	3	4
Total Financial Assets	19,358	23,788	25,605
	(100.0)	*(100.0)*	*(100.0)*
Per cent of Net National Product at Market Prices	10.8	12.1	11.6
1. Currency	2,743	2,958	2,205
	(14.2)	*(12.4)*	*(8.6)*
Per cent of Net National Product at Market Prices	1.5	1.5	1.0
2. Deposits	9,571	11,346	11,957
	(49.5)	*(47.7)*	*(46.7)*
Per cent of Net National Product at Market Prices	5.3	5.8	5.4
3. Insurance	1,380	1,603	1,778
	(7.1)	*(6.7)*	*(7.0)*
Per cent of Net National Product at Market Prices	0.8	0.8	0.8
4. Provident/Pension Funds	2,997	3,430	3,556
	(15.5)	*(14.4)*	*(13.9)*
Per cent of Net National Product at Market Prices	1.7	1.8	1.6
5. Claims on Government	1,867	3,013	4,105
	(9.6)	*(12.7)*	*(16.0)*
Per cent of Net National Product at Market Prices	1.0	1.5	1.9
6. Compulsory Deposits	82	63	94
	(0.4)	*(0.3)*	*(0.4)*
Per cent of Net National Product at Market Prices	0.1	—	—
7. Investment in Corporate & Co-op. Shares/Debentures and Units of UTI	918	1,389	1,776
Per cent of Net National Product	*(4.7)*	*(5.8)*	*(6.9)*
at Market Prices	0.5	0.7	0.8
8. Trade Credit (net)	−200	−16	132
	(−1.0)	*(—)*	*(0.5)*
Per cent of Net National Product at Market Prices	−0.1	—	0.1
9. Other Assets	—	2	2
	(—)	*(—)*	*(—)*
Per cent of Net National Product at Market Prices	—	—	—

Note: Figures in brackets are percentages to total.

state insurance fund and central government group insurance fund. Such accretions during 1985-86 are estimated at Rs.1,778 crores as against Rs.1,603 crores in 1984-85 and Rs.1,380 crores in 1983-84. Accretions to provident and pension funds are estimated to have risen from Rs.2,997 crores in 1983-84 to Rs.3,430 crores in 1984-85 and further to Rs.3,556 crores in 1985-86. Their share in total financial assets, however, has steadily declined from 15.5 per cent in 1983-84 to 14.4 per cent in 1984-85 and to 13.9 per cent in 1985-86. In terms of NNP, their share shows a decline from 1.8 per cent in 1984-85 to 1.6 per cent during the year under review while the share of insurance remained constant at 0.8 per cent during the years 1984-85 and 1985-86.

(iv) Claims on Government

Households' saving through investment in small saving instruments, government securities, capital investment bonds, national rural development bonds and deposits under national deposit scheme are included under this head. The saving in these instruments showed a marked increase by Rs.1,092 crores to Rs.4,105 crores in 1985-86 on top of a substantial increase by Rs.1,146 crores to Rs.3,013 crores in 1984-85.

Bulk of the saving in these instruments was in small savings which spurted from Rs.1,765 crores in 1983-84 to Rs.2,935 crores in 1984-85 and further to Rs.4,050 crores in 1985-86, indicating the increasing popularity of these savings media, especially the National Savings Certificates — VI Issue, offering an attractive yield and fiscal incentives. While saving in Capital Investment Bonds declined from Rs.33 crores in 1984-85 to Rs.11 crores in 1985-86, National Deposit Scheme fetched Rs.29 crores for the second year in succession. The share of claims on government in total financial assets which increased from 9.6 per cent in 1983-84 to 12.7 per cent in 1984-85,is estimated to have further increased to 16.0 per cent in 1985-86. As a proportion of NNP, its share also moved up from 1.0 per cent in 1983-84 to 1.5 per cent in 1984-85 and further to 1.9 per cent in 1985-86.

(v) Compulsory Deposits

This instrument represents the deposits mobilised under Compulsory Deposits Schemes, 1974 [Additional Emoluments, Additional Dearness Allowance Account (old and new) and Income Tax Payers]. Though the schemes have been discontinued the net accretion under these Schemes during 1985-86 amounted to Rs.94 crores compared with Rs.63 crores in 1984-85 because of accrual of interest and postponement of repayment of instalment due in 1985-86. The share of compulsory deposits in total financial assets showed a marginal improvement from 0.3 per cent in 1984-85 to 0.4 per cent in 1985-86.

(vi) Investment in Shares, Bonds and Units

This component comprises the household sector's investment in shares and debentures of corporate (financial and non-financial) and co-operative sectors and in units of the Unit Trust of India (UTI) besides bonds of public enterprises. Household sector's investment in these instruments is estimated at Rs.1,776 crores in 1985-86 as against Rs.1,389 crores in 1984-85 and Rs.918 crores in 1983-84. Its share in total financial assets which was 4.7 per cent in 1983-84, increased to 5.8 per cent in 1984-85, and further to 6.9 per cent in 1985-86. Its share in NNP was 0.5 per cent in 1983-84, 0.7 per cent in 1984-85 and 0.8 per cent in 1985-86.

The factors responsible for higher investment by households in shares and debentures are buoyancy in the stock market, continued popularity of units of the UTI and attractive bonds issued by the public sector enterprises during 1985-86.

(vii) Trade Credit

This refers to the credit extended by households to the private corporate sector. The *net* trade credit has been estimated to be positive at Rs.132 crores as against the negative trade credit in 1983-84 and 1984-85; it accounted for 0.5 per cent of total financial assets in 1985-86.

(b) Saving in Physical Assets

Saving in the form of physical assets comprises addition to 'construction', 'machinery and equipments' and 'inventories'. As per the estimates of the CSO, saving in the form of these assets during 1984-85 amounted to Rs.10,240 crores as compared with Rs.11,154 crores in 1983-84. The official estimates of the saving in this form for the year 1985-86 are not yet available. On the basis of certain indicators, it is estimated at Rs.12,583 crores forming 5.7 per cent of NNP (Table II-4).

(c) Financial Liabilities

Financial liabilities of the household sector include borrowings from commercial banks, co-operative institutions, loans from Life Insurance Corporation of India and other term lending institutions as well as from the central and state governments and others. Aggregate financial liabilities are estimated to show a modest rise by Rs.472 crores to Rs.5,611 crores in 1985-86, resulting in a marginal decline in its proportion to NNP from 2.6 per cent in 1984-85 to 2.5 per cent in 1985-86.

Borrowing from commercial banks, as usual, predominated in total financial liabilities; its share accounted for 68.2 per cent in 1983-84, 67.7 per cent in 1984-85 and 69.7 per cent in 1985-86.

2. Saving of the Public Sector

The saving of the public sector[3] is estimated at Rs.1,360 crores in 1985-86 indicating a sharp fall of Rs.756 crores mainly due to substantial dissaving by the central government administration including departmental commercial undertakings. The net saving of the central government's departmental commercial undertakings is estimated to have improved from (-) Rs. 141 crores in 1984-85 to Rs.254 crores in 1985-86, and the saving of central government administration is estimated to have deteriorated further from (-) Rs. 1,906 crores in 1984-85 to (-) Rs. 3,182 crores in 1985-86. The saving of administrative departments including departmental enterprises is expected to decline from (-) Rs. 293 crores in 1984-85 to (-) Rs. 1,150 crores in 1985-86. This fall in the saving of administrative departments including departmental enterprises could not be offset by improvement in the profitability of the non-departmental enterprises. The contribution of public sector in total net domestic saving accordingly declined from 6.6 per cent in 1984-85 to 3.8 per cent in 1985-86. As a proportion of NNP, it declined from 1.8 per cent in 1983-84 to 1.1 per cent in 1984-85 and further to 0.6 per cent in 1985-86 (Table II-6).

[3] Includes the central and state governments' administration, their departmental and non-departmental undertakings, the statutory corporations and local authorities.

Table II-6: Saving of the Public Sector (Group-wise)

(Rupees crores at current prices)

Item	Financial Year		
	1983-84	1984-85	1985-86
1	2	3	4
1. Administrative Departments including Departmental Enterprises	1,556	−293	−1,150
2. Non-departmental Financial and Non-financial Undertakings	1,655	2,409	2,510
3. Total (1+2)	**3,211**	**2,116**	**1,360**
Per cent of Net National Product at Market Prices	*1.8*	*1.1*	*0.6*

3. Saving of the Domestic Private Corporate Sector

Saving of the domestic private corporate sector (including co-operative institutions) is estimated to have improved from Rs.1,243 crores in 1984-85 to Rs.1,701 crores in 1985-86, and its share in total net domestic saving increased from 3.8 per cent to 4.8 per cent; in terms of NNP, its ratio increased from 0.6 per cent in 1984-85 to 0.8 per cent in 1985-86 (Table II-3).

D. Trends in Domestic Investment

Aggregate net domestic investment is the sum of net domestic saving generated in the economy and the net inflow of resources from abroad during the year. At current prices, the net domestic investment in 1985-86 is estimated at Rs.40,218 crores showing a rise of Rs.5,410 crores over the previous year; its proportion to NNP improved from 17.7 per cent in 1984-85 to 18.2 per cent in 1985-86.

(i) Estimates at constant prices

Net investment in 1985-86 at constant (1970-71) prices and its relation to NNP at constant market prices are presented in Table II-7. The investment at constant prices is estimated to have increased from Rs.9,510 crores in 1984-85 to Rs.9,798 crores in 1985-86, however, its proportion to NNP at constant market prices showed a decline from 15.0 per cent in 1984-85 to 14.6 per cent in 1985-86.

Table II-7: Net Investment as Percentage of NNP (at 1970-71 prices) (Tentative Estimates)

(Rupees crores)

Financial Year	Net Investment at Current Prices	Net Investment at 1970-71 Prices	NNP at 1970-71 Market Prices	Ratio of (3) to (4)
1	2	3	4	5
1983-84	32,700	9,764	61,130	16.0
1984-85	34,808	9,510	63,236	15.0
1985-86	40,218	9,798	67,088	14.6

Even though the wholesale prices of all commodities went up only by 5.7 per cent in 1985-86, the prices of goods that go into capital formation rose by 12.1 per cent and influenced the estimated investment deflator. As a result, the investment rate at constant prices has declined, whereas, at current prices it showed a rise.

(ii) Sectoral Investment

The sector-wise details of investment are not yet available for the year under review. However, on the basis of certain available indicators, the trends in investment in some of the sectors are reviewed below:

(a) Public Sector

According to the CSO's estimates, the proportion of public sector investment in aggregate net domestic investment has inceased to 59.8 per cent in 1984-85 as against a sharp decline to 53.5 per cent in 1983-84; it was 58.6 per cent in 1982-83. As a proportion of NNP also, it rose to 11.2 per cent in 1984-85 from 9.9 per cent in 1983-84. Since similar estimates for the year 1985-86 are not available for the public sector as a whole, the analysis is confined to some of its components on the basis of available statistical data. The net capital formation of central government is expected to rise only

by 18.3 per cent in 1985-86 as compared to a sharp rise of 29.7 per cent in 1984-85. This is mainly due to the fact that the net fixed assets formation (measured as gross fixed assets formation *minus* expenditure on renewals and replacements) which constitutes the main component of capital formation (at nominal prices) of central government, increased by only 20.0 per cent in 1985-86 as compared to an increase of 30.0 per cent in 1984-85. During this period, the proportion of increase in inventories in gross capital formation declined from 6.8 per cent to 4.9 per cent (Table II-8).

Table II-8: Capital Formation through Central Government Budget (at current prices)

(Rupees crores)

Description	1983-84+	1984-85+	1985-86*
1	2	3	4
1. Gross Direct Fixed Assets Formation	3,219	2,362	2,911
2. Increase in Inventories	137	171	150
3. Net Direct Fixed Assets Formation (i.e. gross direct fixed capital formation *minus* expenditure on renewals and replacements)	2,323	3,019	3,624
4. Financial Assistance for Capital Formation	11,346	13,428	17,411
a) To States, Union Territories	5,974	7,195	10,285
b) Non-departmental Commercial Undertakings	4,679	5,489	6,274
i) Financial Concerns	731	686	648
ii) Others	3,948	4,803	5,626
c) Other parties	693	744	852
5. Gross Capital Formation in Central Government's Non-departmental Industrial and Commercial Undertakings	6,795	10,243	N.A.
	(100.0)	*(100.0)*	
i) Gross Fixed Assets	5,821	7,949	N.A.
	(85.7)	*(77.6)*	
ii) Variation in Inventories	974	2,294	N.A.
	(14.3)	*(22.4)*	

\+ Accounts.
* Revised Estimates.
Sources: i) Economic and Functional Classification of Central Government Budget, 1986-87.
ii) Annual Report on the Working of Industrial and Commercial Undertakings of the Central Government, 1984-85.

The estimates of capital formation of the state governments and union territories, and non-departmental commercial undertakings as also of local authorities are not available. However, the data on total financial assistance provided by the central government to states, union territories and non-departmental commercial undertakings for capital formation showed that such assistance increased by Rs.3,983 crores to Rs.17,411 crores in 1985-86 as compared with a rise of Rs.2,082 crores in 1984-85. The assistance to non-departmental commercial undertakings increased by only Rs.785 crores to Rs.6,274 crores in 1985-86 while that to states and union territories went up by Rs.3,090 crores to Rs.10,285 crores in 1985-86.

As regards gross capital formation in central government's non-departmental industrial and commercial undertakings, information is available only up to 1984-85 which shows that the total gross fixed assets formation increased by Rs.2,128 crores to Rs.7,949 crores in 1984-85. Inventory accumulation increased sharply from Rs.974 crores in 1983-84 to Rs.2,294 crores in 1984-85. As a result, its share in total

gross capital formation increased from 14.3 per cent to 22.4 per cent during the period.

The asset-wise composition of capital formation of central government indicates that the share of 'building and other construction' in total gross fixed capital formation went up from 59.8 per cent in 1984-85 to 61.2 per cent in 1985-86, while the share of 'machinery and equipment' declined from 40.2 per cent in 1984-85 to 38.8 per cent in 1985-86 (Table II-9). The gross capital formation as a proportion of GNP at current market prices increased marginally from 1.9 per cent in 1984-85 to 2.1 per cent in 1985-86.

Table II-9: Capital Formation in Central Government Administration and Departmental Commercial Undertakings — Asset-wise (at current prices)

(Rupees crores)

Description	1983-84 †	1984-85 †	1985-86 *
1	2	3	4
I. Gross Fixed Capital Formation	3,219.1	3,952.6	4,759.7
	(95.9)	*(95.9)*	*(96.9)*
1. Building and other construction	1,942.9	2,361.8	2,910.6
Proportion to 1 above	60.4	59.8	61.2
a) New outlay	1,544.6	1,891.5	2,211.3
b) Renewals and replacements	398.3	470.3	699.3
2. Machinery and Equipment	1,276.2	1,590.8	1,849.1
Proportion to 1 above	39.6	40.2	38.8
a) New outlay	778.7	1,127.1	1,412.7
b) Renewals and replacements	497.5	463.7	436.4
II. Increase in Inventories	136.6	170.7	150.2
	(4.1)	*(4.1)*	*(3.1)*
III. Gross Capital Formation (I+II)	3,355.7	4,123.3	4,909.9
IV. Gross Capital Formation as Proportion of GNP at Market Prices.	1.7	1.9	2.1

† Accounts.

* Revised Estimates.

Note: Figures in brackets are percentages to Gross Capital Formation.

Source: Economic and Functional Classification of Central Government Budget, 1986-87.

(b) Private Corporate (non-financial) Sector

The accounts of the non-financial corporate sector are not available from 1983-84 onwards on a firm basis. A preliminary assessment of the sources and uses of funds of this sector during 1984-85 and 1985-86 based on sample studies of public limited companies reveals that during 1985-86, these companies placed higher reliance on external funds for financing assets formation.

Chapter III

Agricultural Output

Agricultural production during 1985-86, the first year of the Seventh Plan, is estimated to have recorded a growth of about 1.0 per cent as against a decline of 0.9 per cent in the previous year. This growth, against the backdrop of drought conditions that prevailed over some parts of the country, indicates the degree of resilience of agriculture to the vagaries of nature. Of the 35 meteorological sub-divisions, rainfall during the year was deficient or scanty in as many as 9 sub-divisions as compared to 7 sub-divisions in the previous year. The improvement in agricultural production nevertheless was possible due to sustained efforts by the Central Government to strengthen the technological base and adoption of timely strategies. Overall foodgrains production during 1985-86 is estimated at 150.6 million tonnes i.e., 4.4 million tonnes or 3.0 per cent higher than 1984-85 level of 146.2 million tonnes. Of the total foodgrains output during 1985-86, the *kharif* production accounted for 85.4 million tonnes and *rabi* production for 65.2 million tonnes as against the targeted levels of 88.2 million tonnes and 71.0 million tonnes, respectively. Production of rice at 63.7 million tonnes and wheat at 47.3 million tonnes surpassed all previous records. As regards commercial crops, while production of raw jute and mesta reached a new high of 126 lakh bales, cotton output at 86 lakh bales was also higher than in the previous year. Sugarcane production at 173 million tonnes was marginally lower than the 1984-85 output of 173.6 million tonnes. Oilseeds production, however, declined sharply to 112 lakh tonnes from 131 lakh tonnes in the preceding year. Overall performance of agricultural production, barring oilseeds, in 1985-86 was satisfactory. However, there is no room for complacency if the Seventh Plan targets are to be achieved.

The satisfactory performance during 1985-86 is attributed to the agricultural strategy which laid emphasis on innovations such as appropriate land use policy, scientific cropping pattern, supply of critical inputs and better management of water resources. The strategy is showing good results as is evident from the stability that has been achieved over the past few years in respect of foodgrains, especially wheat and rice, although much needs to be done to raise output of coarse grains, pulses, oilseeds and sugarcane. The emerging imbalances in the cropping pattern as well as inter-regional disparities need to be corrected for which specific strategies have to be adopted.

The price support policy of the Commission for Agricultural Costs and Prices (CACP) continued to lay emphasis on remunerative price structure by taking into account various factors like input cost and relative profitability so as to bring about the desired changes in the cropping pattern.

The Seventh Plan had laid stress on stimulating the process of economic development through investment both in agricultural and industrial sectors. Programmes which will accelerate the growth of agricultural production and increase employment opportunities are, therefore, to receive special encouragement. Agricultural production is planned to increase at an average rate of 4 per cent per annum during the Seventh Plan. The major thrust in the Seventh Plan is on the following programmes:

i) Special Rice Production Programme in the Eastern Region,
ii) National Oilseeds Development Project,
iii) National Watershed Development Programme for Rainfed Agriculture,
iv) Development of small and Marginal Farmers and
v) Social Forestry.

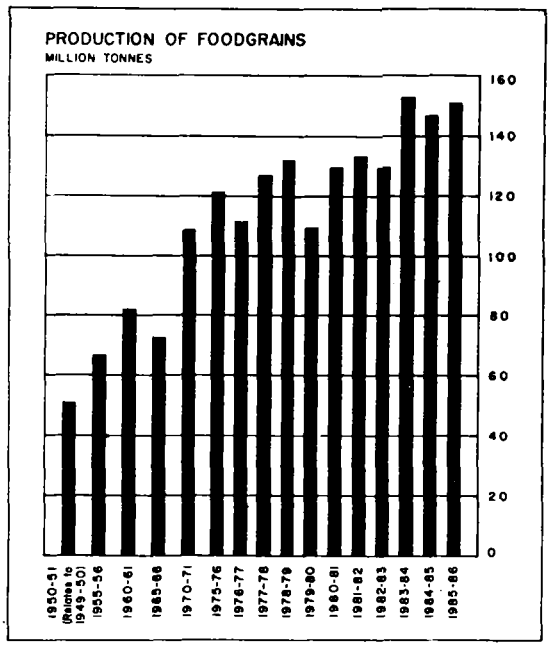
The subsequent paragraphs provide the detailed information as regards agricultural production, procurement, distribution and price policy as well as some important developments witnessed during 1985-86 on the agricultural front.

PRODUCTION AND DISTRIBUTION

FOODGRAINS

The overall foodgrains production in the first year of the Seventh Five Year Plan i.e., 1985-86 has been estimated by the Ministry of Agriculture at 150.6 million tonnes i.e., 4.4 million tonnes more than the 1984-85 production of 146.2 million tonnes but still lower by 8.6 million tonnes than the target of 159.2 million tonnes set for 1985-86. *Kharif* output has been estimated at 85.4 million tonnes and *rabi* at 65.2 million tonnes. *Kharif* output was affected by adverse weather conditions. Therefore, it is short of the target by 2.8 million tonnes though hovering around previous year's production (84.7 million tonnes). Estimates of *rabi* output though 3.7 million tonnes higher than the 1984-85 level, are still short of the target by 5.8 million tonnes. As in the previous year, the shortfall in *kharif* output was mainly in coarse grains, production of which was affected adversely by unfavourable weather conditions. Coarse grains production was low at 26.7 million tonnes indicating a shortfall of 4.5 million tonnes over 1984-85 output (Table III-1).

The Seventh Five Year Plan aims at achieving a compound growth rate of 3.48 — 4.06 per cent per annum in foodgrains production during the period. The Plan also envisages extension of Green Revolution to the Eastern Region specially for increasing the productivity of rice in those States.



The foodgrains production during 1985-86 i.e., the first year of the Seventh Plan, at 150.6 million tonnes, though considerably less than the target of 159.2 million tonnes, was at a satisfactory level, when compared with the average level of output during the Sixth Plan period viz., 138.2 million tonnes. (Table III-2).

Even during the drought years of 1984-85 and 1985-86, output showed a modest decline as compared with the peak level production of 152.4 million tonnes achieved in 1983-84, which shows that though Indian agriculture still continues to be linked with vagaries of

Table III-1: Agricultural Production (Targets and Achievements)

Commodities	Unit	1980-81	1981-82	1982-83	1983-84	1984-85	Seventh Five Year Plan		1985-86		1986-87
							Assumed base level (1984-85)	Target (1989-90)	Target	Achi-evement	Target
1	2	3	4	5	6	7	8	9	10	11	12
Rice	Million tonnes	53.6	53.2	47.1	60.1	58.6	60.0	73.0-75.0	63.5	63.7	65.0
Wheat	"	36.3	37.5	42.8	45.5	44.2	45.0	56.0-57.0	49.2	47.3	49.0
Coarse grains	"	29.1	31.1	27.7	33.9	31.2	32.0	34.0-35.0	33.0	26.7	32.0
Pulses	"	10.6	11.5	11.9	12.9	12.2	13.0	15.0-16.0	13.5	12.9	14.0
Total foodgrains	"	**129.6**	**133.3**	**129.5**	**152.4**	**146.2**	**150.0**	**178.0-183.0**	**159.2**	**150.6**	**160.0**
Kharif foodgrains	"	**77.7**	**79.4**	**69.9**	**89.2**	**84.7**	..	..	**88.2**	**85.4**	..
Rabi foodgrains	"	**51.9**	**53.9**	**59.6**	**63.2**	**61.5**	..	..	**71.0**	**65.2**	..
Sugarcane (in terms of cane)	"	153.3	186.4	189.5	174.1	173.6	180.0	217.0	191.0	173.0	195.0
Cotton	Million bales of 170 kgs. each	7.0	7.9	7.5	6.4	8.5	7.5	9.5	8.6	8.6	8.8
Jute & Mesta	Million bales of 180 kgs. each	8.2	8.4	7.2	7.7	8.0	7.5	9.5	8.6	12.6	8.5
Oilseeds	Million tonnes	9.4	12.2	10.0	12.7	13.1	13.0	18.0	13.6	11.2	14.8
Tea‡	Million kgs.	569.6	560.0	560.7	581.5	639.9	645.0	766.0	655.0	657.3	677.0
Coffee$	"	118.6	150.0	130.0*	105.0*	197.0*	165.0	180.0	146.0	120.0	154.0

‡ Achievement relates to calendar year, while target is for financial year.
$ Figures relate to October-September.
* Latest revised estimate.

Sources: (i) Ministry of Agriculture, Government of India.
(ii) Tea Board.
(iii) Coffee Board.

nature, following the sustained efforts by both the farmers and the Government to strengthen the technological base, the need for dependence on the bounties of nature has,to a great extent, been reduced. This has imparted a degree of resilience to Indian agriculture. Despite such resilience, there are signs of emerging imbalances in the cropping pattern. The output of certain crops grew at a faster rate than, and sometimes at the expense of, other crops. A number of factors influence the changing cropping pattern including differential rates of technological changes among crops, the spread of irrigation leading to area shrinkage of dry crops, market intervention and support by the Government in certain crops, perhaps the most significant of all, the changing relative prices between different crops.

Availability of foodgrains

The overall net availability of foodgrains showed a substantial improvement in the years

Table III-2: Targets and Actual Production of Foodgrains

(Million tonnes)

	Rice	Wheat	Coarse grains	Pulses	Total Foodgrains
1	2	3	4	5	6
1981-82					
Target	58.0	38.0	30.0	12.5	138.5
Actual	53.2	37.5	31.1	11.5	133.3
1982-83					
Target	58.0	39.0	31.0	13.5	141.5
Actual	47.1	42.8	27.7	11.9	129.5
1983-84					
Target	57.0	41.0	31.0	13.0	142.0
Actual	60.1	45.5	33.9	12.9	152.4
1984-85					
Target	61.5	45.6	33.5	13.0	153.6
Actual	58.6	44.2	31.2	12.2	146.2
1985-86					
Target	63.5	49.2	33.0	13.5	159.2
Anticipated Achievement	63.7	47.3	26.7	12.9	150.6
1986-87					
Target	65.0	49.0	32.0	14.0	160.0

Source: Ministry-of Agriculture, Government of India.

1984 and 1985 as compared to that in the years 1981-83. The net availability in the calendar year 1985 at 127.0 million tonnes was slightly lower than that in 1984 (128.6 million tonnes), but higher than the level in 1982 and 1983 (115-117 million tonnes). The slight decline in 1985 was due mainly to a decline in foodgrains production of about 6 million tonnes in 1984-85. Further, as against a net import of 2.4 million tonnes of foodgrains in 1984 (which increased net availability of foodgrains in the country), there was a net export of 0.3 million tonnes in 1985. As a result, per capita net availability of foodgrains dropped from 477.9 grammes per day in 1984 to 463.3 grammes per day in 1985 (Table III-3).

The Public Distribution System (PDS), operating through a wide net-work of fair price/ ration shops, has been recognised as a permanent feature of the economy for supply and distribution of essential commodities at reasonable prices to the people, particularly the vulnerable sections of the society. As strengthening and expansion of the Public Distribution System is a major plank of policies and programmes under the New 20-Point Programme, special emphasis is being laid on increasing the coverage of the scheme by opening a number of fair price shops in the hitherto unserved areas and on organising mobile shops in the far-flung regions. The main thrust of expansion is in the rural areas,particularly in remote and inaccessible areas. Public Distribution System becomes complementary to the poverty alleviation programme. For co-ordinating procurement, warehousing and supply of a number of essential commodities under the Public Distribution System, twelve States and one Union Territory have set up Civil Supplies Corporations. The number of fair price shops set up has increased from 2.39 lakhs in March 1979 to 3.20 lakhs as on June 30, 1985, showing an increase of 34 per cent over the period. About 78 per cent of the total fair price shops are in the rural areas. The fair price shops run by the Co-operatives (71,739) formed about 22 per cent of the total shops (3,20,551) in the

Table III-3: Availability of Foodgrains

(Million tonnes)

Year (January-December)	Gross output	Net output	Net imports	Change in Govt. stocks	Net availability	Per capita net availability per day (in gms.)			Procurement	Public distribution‡
						Cereals	Pulses	All foodgrains		
1	2	3	4	5	6	7	8	9	10	11
1981	129.6	113.4	0.7	−0.2	114.3	416.2	37.5	453.7	13.0	13.0
1982	133.3	116.6	1.6	+1.3	116.9	414.8	39.2	455.0	15.4	14.8
1983	129.5	113.3	4.1	+2.7	114.7	396.9	39.5	436.4	15.7	16.2
1984	152.4	133.3	2.4	+7.1	128.6	436.1	41.8	477.9	18.7	13.3
1985	146.2	127.9	−0.3	+0.7	127.0	424.4	38.9	463.3	20.2	15.4
1986	150.6	..	..	..	..	..	..	..	18.2*	8.5*

Notes: 1. Output data relate to agricultural year (July-June).

2. Net output has been taken as 87.5 per cent of the gross output, 12.5 per cent being provided for feed, seed requirements and wastage.

3. Net availability = Net production + net imports − change in Government stocks.

4. Figures in respect of change in stocks with traders and producers are not available. The estimates of net availability should not, therefore, be taken to be strictly equivalent to consumption.

* Upto end-June 1986.

‡ Includes quantities released under the FWP/NREP/RLEGP.

Source: Economic Survey, 1985-86.

country, 81 per cent of the total shops run by the co-operatives being in the rural areas (58,274) and 19 per cent in the urban areas (13,465).

In 1985, 15.4 million tonnes of foodgrains (8.3 million tonnes of wheat and 7.1 million tonnes of rice) were distributed through the Public Distribution System as against 13.3 million tonnes (6.5 million tonnes of wheat, 6.7 million tonnes of rice and 0.1 million tonnes of coarse grains) in 1984 which indicates a higher off-take during 1985. The higher off-take in 1985 was due mainly to increased off-take of wheat by the roller flour mills (5.0 million tonnes in 1985 as compared to 3.1 million tonnes in 1984). The off-take of wheat for distribution under various schemes of rural development e.g., National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEGP) was also higher (0.2 million tonnes in 1985 as compared to 0.1 million tonnes in 1984). The details of off-take are given in (Table III-4).

Procurement and buffer stocks

It is the policy of the Government that all the quantities of wheat and paddy of fair average quality offered for sale by the farmers at the support prices fixed by the Government should be purchased by public agencies. The purchase of wheat and paddy under the price support programme is the responsibility of the Food Corporation of India(FCI). The FCI is assisted in this task by the Civil Supplies Department of the respective State Governments. In regard to paddy/rice, a part of purchases is acquired by the Government as levy on rice millers and traders. Instructions are issued to all State Governments/Union Territories to make arrangements for price support operations, so as to avoid distress sales by farmers. For price support operations in coarse grains for 1985-86 marketing season, National Agricultural Co-operative Marketing Federation (NAFED) was designated as the nodal agency. (Upto 1984-85, responsibility for procurement of *kharif* coarse grains rested with the State Governments). Besides procurement from farmers, the public agencies mopped up a part of the marketed surplus by way of levy on rice millers and traders as already mentioned. The foodgrains procured by the Government agencies are utilised for (i) running the public distribution system, (ii) issuing wheat to the roller flour mills, (iii) strengthening the food for work component of the existing poverty alleviation programmes such as NREP, RLEGP, etc., and (iv) building up of buffer stocks.

A major development in the procurement operations during 1985-86 is that the State Governments have also been advised, in addition to the FCI, to impose a levy, both on rice-millers and traders, as an appropriate percentage of production and stocks, taking into consideration the conditions prevailing in their respective States. Accordingly, the State Governments have imposed a levy on the millers and the wholesalers, with the concurrence of the Central Government.

The policy of permitting free movement of foodgrains throughout the country continued during the year. Movement of levy-free rice and wheat on trade account throughout the country is permitted without any restrictions. The ban on inter-State movement of paddy has been removed; however, a few States have been allowed at their request, to retain the ban in some special circumstances.

The building up and maintenance of buffer stock, with a view to ensuring stability in supplies and prices, has been a major plank of the national food policy. The decision to create the foodgrains buffer stock of 10 million tonnes, comprising 5 million tonnes each of wheat and rice was taken in March 1984. This buffer stock would be over and above the operational stock, which would range between 6.5 million tonnes on 1st April (lowest operational stock) and 11.4 million tonnes on 1st July (highest operational stock). The details of the norms on different

Table III-4: Basic Data Relating to Major Foodgrains

(Million tonnes)

Year	Production			Procurement			Imports			Public Distribution$			Year-end Stocks		
	Rice	Wheat	Coarse-grains	Rice	Wheat	Coarse-grains	Rice	Wheat	Coarse-grains	Rice	Wheat	Coarse-grains	Rice	Wheat	Coarse-grains
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1981-82	53.2	37.5	31.1	7.3	7.7	0.2	—	2.2	—	7.5	7.2	0.1	5.3	7.2	0.1
1982-83	47.1	42.8	27.7	7.0	8.3	0.2	—	4.0	—	7.9	8.1	0.2	4.7	10.8	0.1
1983-84	60.1	45.5	33.9	7.7	9.3	—	0.6	2.1	—	6.7	6.5	0.1	7.7	14.7	0.1
1984-85	58.6	44.2	31.2	9.8	10.3	0.2	—	—	—	7.1	8.3	—	8.9	15.0	0.2
1985-86‡	63.7	47.3	26.7	9.6*	10.4*	0.1*	—	—	—	3.6*	4.7*	0.2*	9.3*	19.0*	0.1*
				(9.6)	(10.2)	(0.2)				(3.2)	(3.5)	(−)	(7.7)	(20.7)	(0.2)

Notes: 1. Production figures relate to agricultural year (July-June).
2. Procurement figures relate to the marketing season which is April-March for Wheat and October-September for rice and coarse grains.
3. Public distribution and year-end stocks relate to calendar year.
4. Figures in brackets relate to corresponding period of the previous year.

‡ Provisional.
* Upto end-June 1986.
$ Includes quantities released under the FWP/NREP/RLEGP.

Source: Economic Survey, 1985-86.

dates are indicated in the table below:

(Million tonnes)

Date	Buffer stock	Size of operational stocks			Total stock
	Total	Wheat	Rice	Total	
April 1	10	2.1	4.4	6.5	16.5
July 1	10	8.4	3.0	11.4	21.4
October 1	10	6.3	1.5	7.8	17.8
January 1	10	4.2	5.9	10.1	20.1

The aggregate foodgrains stocks reached a record high of 28.65 million tonnes at end-June 1985 comprising of 7.75 million tonnes of rice, 20.73 million tonnes of wheat and 0.17 million tonnes of coarse grains. This huge built-up was the net result of larger purchases of wheat and rice under the price support programme and lower off-take from the Public Distribution System. The stocks at the end of June 1986 amounted to 28.38 million tonnes comprising of 18.95 million tonnes of wheat, 9.31 million tonnes of rice and 0.12 million tonnes of coarse grains. The Government took some steps during the year to unload the bulging wheat stocks in view of the comfortable position regarding availability of foodgrains in the open market.

Commodity-wise review

Rice

Rice production in 1985-86 touched a new peak of 63.7 million tonnes, at which level it accounted for an increase of 5.1million tonnes over the previous year's production level of 58.6 million tonnes. The target for the year 1986-87 has been fixed at 65.0 million tonnes i.e., about 2 per cent higher than the production in 1985-86 (Table III-2).

Increasing the productivity of rice, especially in the Eastern States, is one of the major development objectives of the Seventh Five Year Plan. A special Rice Production Programme has, therefore, been launched in 417 selected blocks of Assam, Bihar, Eastern Uttar Pradesh, Eastern Madhya Pradesh, Orissa and West Bengal. In the first year of the Seventh Plan, the production has just reached the target of 63.7 million tonnes.

On the recommendations of the Commission for Agricultural Costs and Prices (CACP), the Government enhanced the procurement prices of paddy for the 1986-87 *kharif* marketing season by Rs.4 per quintal i.e., from Rs.142 to Rs.146 for common variety, from Rs.146 to Rs.150 for fine variety and from Rs.150 to Rs.154 for superfine variety (Table III-5). Consequent to this enhancement, issue price of common, fine and superfine varieties of rice was raised by Rs.8 to Rs.239, Rs.251 and Rs.266 per quintal, respectively, with effect from October 1, 1986 (Table III-6).

Rice procured during the 1985-86 *kharif* marketing season (October-September) amounted to 9.65 million tonnes (upto end-June 1986) — the same as that in the corresponding period of 1984-85 *kharif* season. The state-wise details of rice procurement are given in Table III-7.

Distribution of rice through Public Distribution Systems(PDS) (including issues for National Rural Employment Programme and Rural Landless Employment Guarantee Programme and Employment Guarantee Scheme) during the calendar year 1985 amounted to 7.1 million tonnes as against 6.7 million tonnes during 1984. Extra ad-hoc allocations totalling 11.49 lakh tonnes of rice were made to various States/Union Territories during the period June-December 1985, in view of the comfortable stock position in the Central pool. During the first six months of 1986 (i.e., January to June 1986), 3.58 million tonnes of rice was issued through PDS as against 3.20 million tonnes during the corresponding period of the last year.

There were no imports of rice during the year 1985. Existing policy allows export of *Basmati* rice under Open General Licence (OGL-3) at a minimum export price of Rs.7,500 per tonne (FOB). With effect from February 18, 1986, export of non-*Basmati* rice was also permitted within a limited ceiling of 1 million tonnes subject to the minimum export price of Rs.4,000 per tonne (FOB).

Table III-5: Minimum Support/Procurement Prices (Marketing Season) *

(Rupees per quintal)

Commodities	1982-83		1983-84		1984-85		1985-86		1986-87	
	Minimum Support Price	Procure-ment Price	Minimum Support Price	Procure-ment Price	Minimum Support Price	Procure-ment Price	Minimum Support Price	Procure-ment Price	Minimum Support Price	Procure-ment Price
1	2	3	4	5	6	7	8	9	10	11
Paddy — Common		122		132		137		142		146
Fine		126		136		141		146		150
Superfine		130		140		145		150		154
Wheat		142		151		152		157		162
Jowar		118		124		130		130		132
Bajra		118		124		130		130		132
Maize		118		124		130		130		132
Ragi		118		124		130		130		132
Barley	N.A.		122		124		130		132	
Gram	N.A.		235		240		N.A.		260	
Moong	240		250		275		300		320	
Urad	230		245		275		300		320	
Tur	215		245		275		300		320	

N.A. Not Announced.

* Marketing season relate to October-September for rice and coarse grains and April-March for wheat and pulses.

Source: Ministry of Agriculture, Government of India.

Table III-6: Issue Prices of Foodgrains

(Rupees per quintal)

	w.e.f. 1.10.81	w.e.f. 1.10.82	w.e.f. 16.1.84	w.e.f. 10.10.85	w.e.f. 1.2.86	w.e.f. 1.10.86	
Rice							
Common	175	188	208	217	231	239	
Fine	187	200	220	229	243	251	
Superfine	202	215	235	244	258	266	
	w.e.f. 1.4.81	w.e.f. 1.8.82	w.e.f. 15.4.83	w.e.f. 10.8.84	w.e.f. 1.2.86	w.e.f. 1.4.86	w.e.f. 17.7.86
Wheat							
Public Distribution System	145	160	172	172	190		
Roller Flour Mills	155	185	208	172	190	220	205
	w.e.f.	w.e.f.	w.e.f.				
Coarse grains	1.1.81	1.10.81	29.12.83 (Bajra only)				
(Jowar, bajra, maize, ragi)	106	117	157				

w.e.f. With effect from

Source: Ministry of Food and Civil Supplies, Government of India.

Table III-7: Procurement of Rice (Including paddy in terms of rice)
(Marketing Season : October-September)

(Thousand tonnes)

States/Union Territories	1981-82	1982-83	1983-84	1984-85	1985-86*
1	2	3	4	5	6
Andhra Pradesh	1100	1629	1484	1783	1533
Assam	44	23	11	20	27
Bihar	49	4	34	31	21
Gujarat	19	6	14	30	18
Haryana	883	706	624	977	1048
Jammu & Kashmir	53	36	43	55	39
Karnataka	163	110	145	101	76
Madhya Pradesh	368	182	312	357	584
Maharashtra	25	—	—	1	1
Orissa	130	63	117	105	124
Punjab	3110	3252	3273	4277	4198
Rajasthan	35	34	45	46	31
Tamil Nadu	575	427	731	807	838
Uttar Pradesh	726	559	808	1116	1025
West Bengal	45	14	80	96	65
Arunachal Pradesh	3	—	1	3	3
Chandigarh	—	1	5	5	7
Pondicherry	6	1	4	12	10
Total	**7334**	**7047**	**7731**	**9822**	**9648**

* Upto June 1986.

Source: Ministry of Food and Civil Supplies, Government of India.

The stocks of rice with the Central and State Government agencies at 9.3 million tonnes at end-June 1986 were higher by 1.6 million tonnes than the stock position a year ago (7.7 million tonnes).

Wheat

Wheat output during 1985-86 at 47.3 million tonnes was also a new record. At this level, the production was about 3.1 million tonnes higher than the previous year's level of 44.2 million tonnes, but was about 2 million tonnes short of the target of 49.2 million tonnes fixed for 1985-86.

On the recommendation of the Commission for Agricultural Costs and Prices (CACP), the Government enhanced the procurement price of wheat for 1986-87 *rabi* marketing season from Rs. 157 to Rs. 162 per quintal (Table III-5). With effect from February 1, 1986, issue price of wheat was raised by Rs. 18 from Rs. 172 to Rs. 190 per quintal — both for PDS and roller flour mills. The issue price of wheat for roller flour mills was enhanced further on April 1, 1986 to Rs. 220 per quintal. As these prices were above the ruling market prices of similar qualities of wheat, the Government, with effect from July 17, 1986, reduced the price of wheat to Rs. 205 per quintal for both sale in open market and to roller flour mills (Table III-6).

Wheat procured during 1985-86 *rabi* marketing season at 10.34 million tonnes was higher by 1.04 million tonnes (11.2 per cent) than the 9.30 million tonnes procured in the last season. Procurement during 1986-87 marketing season so far (i.e., April 1, 1986 to end-June 1986) aggregated 10.41 million tonnes as against 10.23 million tonnes during the corresponding period of the previous *rabi* season. Total wheat procurement during the current 1986-87 season till August 8, 1986, for which the data are available, had reached 10.50 million tonnes as against 10.33 million tonnes procured during

the same period of 1985-86 season. As usual, about 62 per cent of the total procurement came from Punjab followed by 22 per cent from Haryana and 15 per cent from Uttar Pradesh. In the corresponding period last season, about 59 per cent of the total procurement came from Punjab, 19 per cent from Haryana and 21 per cent from Uttar Pradesh (Table III-8).

Table III-8: Procurement of Wheat
(Marketing Season: April-March)

(Thousand tonnes)

States/Union Territories	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87*
1	2	3	4	5	6	7
Bihar	13	16	21	43	4	—
Haryana	1121	1262	1399	1774	1960	2318
Jammu & Kashmir	20	20	19	7	6	2
Madhya Pradesh	167	65	53	91	14	4
Punjab	3768	4826	5177	5012	6148	6440
Rajasthan	10	135	178	218	37	102
Uttar Pradesh	1496	1380	1445	2152	2174	1541
West Bengal	—	—	—	—	2	—
Delhi	—	14	—	3	—	—
Total	**6595**	**7718**	**8292**	**9300**	**10345**	**10407**

* Upto June 1986

Source: Ministry of Food and Civil Supplies, Government of India.

During the calendar year 1985, wheat distributed through PDS (including issues under NREP, RLEGP, EGS and mills) was of the order of 8.3 million tonnes as against 6.5 million tonnes in the preceding year. During the first six months of 1986 (i.e., upto end-June 1986), 4.73 million tonnes were distributed through PDS as compared with 3.51 million tonnes during the corresponding period last year. The following steps were taken by the Government to increase wheat off-take during 1985 and 1986.

i) The monthly allocation of wheat to the States for public distribution system was increased;
ii) the roller flour mills were permitted to produce 50 per cent more than their licenced monthly capacity;
iii) the issue of wheat under National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEGP) was increased from one kilogramme to two kilogrammes per manday;
iv) Wheat was issued through the public distribution system upto a full month's requirement at a time;
v) the Government permitted export of wheat, maida, suji and wholemeal atta; and
vi) the Food Corporation of India was allowed to auction wheat at some important consuming centres.

Wheat stocks as at the end of June 1986 with the Central and State Government agencies was about 18.95 million tonnes, that is 1.78 million tonnes lower than the level a year ago.

Export of wheat and wheat products was allowed during the year due to its easy availability. Details of export of wheat by the Food Corporation of India on Government Account are given below:

For the year 1986-87, the Government has permitted export of 2 million tonnes of wheat at global prices through three canalising agencies viz., Food Corporation of India (FCI), State

Exports of wheat

(Lakh tonnes)

Commodity/destination	Basis of supply	Quantity contracted	Quantity shipped during the year 1985
Wheat to USSR	Commercial	5.00	2.07
Wheat to African countries	Aid	1.00	1.00
Wheat to Vietnam	Commodity loan	0.50	0.36
Wheat flour to Mauritius	Gift	0.10	0.07

Trading Corporation (STC) and Minerals and Metals Trading Corporation (MMTC).

With effect from November 13, 1985, the FCI was directed to arrange open sale of wheat at a fixed price of Rs.175.00 per quintal throughout the country. This scheme replaced the earlier scheme of periodical sale of wheat by tenders. An estimated quantity of 9.06 lakh tonnes was sold upto February 7, 1986 in this manner. The sale price of wheat was revised to Rs.193 per quintal with effect from February 1, 1986. The sales have been permitted upto March 31, 1986.

Coarse grains

The output of coarse grains during 1985-86 is estimated at 26.7 million tonnes. This is lower by 4.5 million tonnes than the previous year's production of 31.2 million tonnes and also substantially short of the target of 33.0 million tonnes. The drought in various States had adversely affected coarse grains production. The target for coarse grains production for 1986-87 has been fixed lower at 32.0 million tonnes. The Seventh Plan target has been fixed at 34.0-35.0 million tonnes envisaging a growth rate of 1.22-1.81 per cent per annum. The procurement price for 1986-87 season was fixed by the Government at Rs.132 per quintal as against the previous year's procurement price of Rs.130 per quintal (Table III-5).

Procurement of coarse grains is almost negligible. Procurement during 1985-86 marketing season (upto end-June 1986) was lower at 0.10 million tonnes as against 0.19 million tonnes procured during the corresponding period of 1984-85 season. Procurement of coarse grains during the 1984-85 season was 0.19 million tonnes as against 0.04 million tonnes procured during 1983-84. Issues through the Public Distribution System (PDS) during 1985 was negligible at 0,35 lakh tonnes as compared with 0.91 lakh tonnes in 1984. During January-June 1986, 1.72 lakh tonnes were issued through PDS as against 0.16 lakh tonnes during the same period of 1985. The stocks of coarse grains with the Central and State Government agencies as at end-June 1986 were lower at 1.24 lakh tonnes as compared with 1.72 lakh tonnes at end-June 1985.

Pulses

The output of pulses during 1985-86 is placed at 12.9 million tonnes. This is lower than the target of 13.5 million tonnes but marginally higher by 0.3 million tonnes or by 2.4 per cent than the production a year ago (12.2 million tonnes). For 1986-87, the target has been fixed higher at 14.0 million tonnes. The Seventh Plan target has been fixed at 15-16 million tonnes envisaging a growth rate of 2.90-4.25 per cent per annum. The production of pulses has remained almost stagnant over the last several years as it is a highly risky and less profitable crop cultivated under inadequate irrigation conditions with low level of input. The Government has now worked out a new strategy to increase its production in the Seventh Plan.

Crop Insurance Scheme

A country-wide Crop Insurance Scheme has been introduced from 1985 *kharif* season. The scheme provides financial support to insured

farmers in the event of a crop failure. All the farmers availing crop loans from co-operative credit institutions, commercial banks and Regional Rural Banks for raising cereals crops or for raising dry land crop i.e., pulses and oilseeds, are eligible for insurance to the extent of 150 per cent of the crop loan. The premium rates are 2 per cent of the sum insured in the case of rice, wheat and millets, and 1 per cent in the case of pulses. Small and marginal farmers are entitled to a subsidy of 50 per cent on the premium payable by them under the scheme.

During 1985 kharif season (as on 30.6.86), 13 States and 3 Union Territories have implemented the Crop Insurance Scheme covering a total area of 43.23 lakh hectares with 23.14 lakh farmers. The total sum insured under these proposals is around Rs.541.69 crores. For details of the scheme see Chapter VII.

Cotton

According to the preliminary estimates by the Ministry of Agriculture, cotton production during 1985-86 would be around the targeted figure of 86 lakh bales as against actual production of 84.7 lakh bales in 1984-85. The increase in production from 63.9 lakh bales during 1983-84 to 84.7 lakh bales during 1984-85, despite the fall in area by 3.7 per cent (1984-85 over 1983-84), was due to favourable weather conditions on the one hand and lower incidence of attack of pests and diseases on the other. According to the estimates of the Cotton Advisory Board (CAB) (at the meeting held on April 2, 1986), cotton production in 1985-86 was placed at 107.0 lakh bales as against 101.5 lakh bales in 1984-85. On the basis of CAB's estimates, the supply-demand position of cotton for the period 1981-82 to 1985-86 is as indicated in Table III-9.

As may be seen from Table III-9, the opening stock for 1985-86 season (September-August) was placed at 24.0 lakh bales. Adding the season's crop of 107.0 lakh bales, the aggregate availability for 1985-86 season was estimated at about 131.0 lakh bales. On the demand side, mill consumption was placed at 87.0 lakh bales as against 86.5 lakh bales during 1984-85. Extra-factory consumption (inclusive of consumption by waste spinning units) was placed at the last season's level of 4.65 lakh bales and exports were placed at 10.0 lakh bales. The aggregate demand was, thus, estimated at 101.7 lakh bales (estimates during last season were 94.1 lakh bales). The closing stock at the end of the season is estimated at 29.8 lakh bales as compared to 24.4 lakh bales at the end of the preceding season.

Table III-9: Trends in Availability of Cotton-CAB's Estimates (September-August)

('000 bales of 170 kgs. each)

Item	1981-82	1982-83	1983-84	1984-85	1985-86
I. Supply	**10085**	**11016**	**10057**	**11850**	**13100**
1. Opening Stock	1635	2716	2541	1600	2400
2. Production	8400	8300	7516	10150	10700
	(7884)	(7534)	(6387)	(8465)	(8600)
3. Imports	50	—	—	100	—
II. Demand	**7810**	**8679**	**8828**	**9410**	**10165**
1. Mill Consumption	7035	7500	8006	8650	8700
2. Extra-Factory Consumption @	400	465	465	465	465
3. Exports	375	714	357	295	1000
III. Closing Stock	**2275**	**2337**	**1229**	**2440**	**2975**

Note: Figures in brackets represent estimates by the Ministry of Agriculture.

@ (Including Ambar Charkha, Surgical Dressing Factories and waste spinning units).

In the Seventh Five Year Plan, cotton production has been targeted at 95 lakh bales, envisaging a growth rate of 4.84 per cent per annum on the basis of assumed base level production of 75 lakh bales during 1984-85. For 1986-87, the cotton production target has been fixed at 88 lakh bales.

Following bumper cotton crops in 1984-85 and 1985-86 seasons, the supply of cotton in the country was much in excess of the country's needs. The surplus has emerged mainly in the supply of long and extra long staple varieties of cotton. During the year, the Government, therefore, released a total export quota of 10 lakh bales of long and extra long staple cotton which was allocated to the various agencies like Cotton Corporation of India (CCI), Maharashtra State Co-operative Cotton Grower's Marketing Federation (MSCCGMF) etc, and also to private trade. These exports would be subject to Minimum Export Prices (MEP) fixed by the Textile Commissioner. However, the exporting agencies found it difficult to export cotton at MEP, as the demand in the international market was subdued. Therefore, the Government removed the stipulation regarding the Minimum Export Prices (MEP) except in the case of Bengal Deshi Cotton. The MEP for Bengal Deshi was reduced from 67 US cents per pound to 62, 60 and 56 US cents per pound for extra superfine, superfine and fine varieties, respectively, with effect from June 3, 1986.

The cotton price policy of the Government for the 1985-86 season, continued to lay emphasis on the twin objectives of assuring remunerative prices to the growers and reasonable prices to the textile industry.

For the 1985-86 season, the minimum support prices for two basic varieties of cotton were fixed by the Government on the lines recommended by the Commission for Agricultural Costs and Prices (CACP). The price of F-414/H-777 variety in the medium staple group was fixed at Rs.425 per quintal which was higher by 3.66 per cent than the minimum support price of Rs.410 per quintal fixed for 1984-85 season. The price of H-4 variety in the long staple group was kept unchanged at the previous season's level of Rs.535 per quintal.

During the 1985-86 season, the Cotton Corporation of India (CCI), continued its purchase operations with a view to (1) meeting the requirements of textile mills under the National Textile Corporation of India and other institutional buyers and also the demand from private mills on commercial basis, (2) meeting the demand of overseas buyers as against the export quota allotted to the corporation by the Government and (3) rendering price support to cotton growers whenever called for. The CCI purchased a record level of 15.56 lakh bales during 1985-86 season as against 6.7 lakh bales purchased during 1984-85 season (Table III-10).

In Maharashtra, the State owned agency namely the Maharashtra State Co-operative Cotton Growers' Marketing Federation (MSCCGMF) undertakes the procurement operations under its Monopoly Procurement Scheme. The CCI does not make any purchases in Maharashtra. The MSCCGMF purchased Cotton at the Guaranteed prices fixed by the State Government from time to time. For the 1985-86 season, the guaranteed prices were fixed in the range of Rs.442 to Rs.592 per quintal for FAQ grade, the same as in the previous season. The Monopoly Procurement Scheme, which was to expire on June 30, 1986 has been extended for a period of 3 years upto June 30, 1989. However, the MSCCGMF had made considerable losses under the scheme, as the guaranteed prices under the scheme were higher than the Central Government support prices at which the CCI was carrying on price support operations. The Central Government, therefore, directed the State Government to implement the scheme in a modified form, wherein the farmers would get the minimum support prices fixed by the Union Government instead of State Government fixed guaranteed prices which they were getting hitherto for their sale of cotton.

The procurement of cotton by the MSCCGMF during 1985-86 season was at the record level of

29.57 lakh bales as compared to 17.9 lakh bales during 1984-85 season and 7.7 lakh bales during 1983-84. The high level of purchases during the current year was due to the bumper crop and the consequential increased market arrivals.

Table III-10: Purchases by the CCI and under the Maharashtra State Monopoly Procurement Scheme

(Lakh bales of 170 kgs. each)

	September-August				
Agency	1981-82	1982-83	1983-84	1984-85	1985-86
CCI	10.4	9.7	5.2	6.7	15.56
Maharashtra Monopoly Procurement Scheme	14.9	18.2	7.7	17.9	29.57

In view of the comfortable supply position of cotton, the Textile Commissioner by a notification dated January 17, 1986, raised the stock limit for holding cotton by mills from 4 months' average consumption requirements to 6 months' average consumption requirements.

Raw Jute and Mesta

Raw jute and mesta production during the 1985-86 season (July-June) is tentatively placed by the Ministry of Agriculture, at an all time high of 126.0 lakh bales, as against the earlier peak level of 83.71 lakh bales achieved during 1981-82 and the 1984-85 output of 79.77 lakh bales. The Jute Commissioner's estimates of raw jute and mesta production for 1985-86 are placed at 120-125 lakh bales as against 73.43 lakh bales during the 1984-85 season.

As regards supply-demand position, the 1985-86 season commenced with an opening stock of 7.50 lakh bales which was lowest in the last five years mainly due to lower raw jute production during the past three consecutive years. Adding the year's output of 120-125 lakh bales, aggregate availability during the 1985-86 season was placed at 127.50 — 132.50 lakh bales, as against 85.93 lakh bales during the previous season. On the demand side, raw jute consumption during 1985-86 season was placed higher at 81 lakh bales as compared to 78.33 lakh bales during the previous season. Of this, village level consumption of raw jute was placed at about 4 lakh bales, the same as in the last year. Closing stock at the end of 1985-86 season would be around 46.5 – 51.5 lakh bales (Table III-11).

As regards price trends, the prospects of bumper crop of raw jute during 1985-86 and the consequential increased market arrivals in the face of restricted buying support by the mills and trade, led to a virtual crash of raw jute prices. The price of raw jute in Calcutta, which peaked to Rs.1,010 per quintal during the last season (as on January 9, 1985), came down to Rs.595 per quintal at the beginning of the 1985-86 season. The easy trend continued further and the price declined to the statutory minimum level of Rs.296 per quintal (Ex-other States) by September 1, 1985. Since then, the price was officially quoted at the statutory minimum level. It was, however, reported that in some upcountry markets, the transactions were taking place at a discount over the statutory minimum level.

On the recommendation of the Commission for Agricultural Costs and Prices (CACP), the Government enhanced the statutory minimum price of raw jute, W-5 variety (Ex-Assam) from Rs.195 per quintal fixed for the preceding season to Rs.215 per quintal for 1985-86. Based on this price, the Jute Commissioner statutorily fixed prices for other grades/varieties in different States under the Jute (Licensing and Control) Order 1961. For the 1986-87 season, the statutory minimum price has been fixed higher at Rs.225 per quintal for W-5 variety (Ex-Assam). The corresponding (Ex-other States) price for 1986-87 season is Rs.308.50 per quintal.

During the current 1985-86 season, the increased market arrivals of raw jute following bumper crop, depressed the price to the statutory minimum level. In view of this, the Jute Corporation of India (JCI) intensified its price support operations. The JCI during 1985-86 purchased an all time high of 27.98 lakh bales of raw jute, of which 1.34 lakh bales were under commercial operations and remaining under

Table III-11: Raw Jute and Mesta — Supply-Demand Position

(In lakh bales of 180 kgs. each)

Items	JULY-JUNE				
	1981-82	1982-83	1983-84	1984-85	1985-86
I. Supply					
1. Opening Stock	32.00	27.00	10.00	9.50	7.50
2. Crops	74.00	63.00	66.00	73.43	120-125
	(83.71)	(71.71)	(77.24)	(79.77)	(126.0)
3. Imports	—	0.42	1.50	3.00	—
Total Supply (1+2+3)	**106.00**	**90.42**	**77.50**	**85.93**	**127.50-132.50**
II. Demand					
1. Mill Consumption	73.00	75.50	64.00*	74.33	77.00
2. Other Domestic Consumption	3.06	4.73	4.00	4.00	4.00
3. Exports	2.94	—	—	—	—
Total Demand (1+2+3)	**79.00**	**80.23**	**68.00**	**78.33**	**81.00**
III. Closing Stock (I-II)	27.00	10.19 or 10.00	9.50	7.60 or 7.50	46.5-51.5

* Mill Consumption during 1983-84, was lower due to 84 days' strike in the jute industry from January 16, to April 8, 1984.

Sources: (1) Jute Commissioner's Office.
(2) Figures in brackets represent production data as given by the Ministry of Agriculture.

price support operations. Earlier, the JCI purchases had peaked to 17.61 lakh bales in 1981-82. During the previous season 1984-85, the JCI had purchased 10.14 lakh bales of raw jute — all under the commercial operations (Table III-12).

Table III-12: Purchases of raw jute by the Jute Corporation of India

(In lakh bales)

Year	Purchases		
	Price Support	Commercial	Total
1981-82	17.61	—	17.61
1982-83	6.58	2.02	8.60
1983-84	—	8.39	8.39
1984-85	—	10.14	10.14
1985-86	26.64	1.34	27.98

In a bid to arrest the falling raw jute prices during the current season (1985-86), the Jute Commissioner vide his order issued on September 6, 1985 under the Jute (Licensing and Control) Order of 1961 made it obligatory for all working jute mills in the private sector to build up raw jute inventory equivalent to their 6 weeks' consumption requirements by September 30, 1985 and 10 weeks' consumption requirements by October 31, 1985. It is reported that the mills, however, took the advantage of easy availability of jute during the period when arrivals reached its peak and they had maintained their purchases mainly on a

forward delivery basis. Since the mills did not take actual delivery of goods, the directives had very little impact on prices.

Further, the Union Government decided to allow exports of 3 lakh bales of raw jute during 1985-86. The terms and conditions of raw jute exports were finalised by the JCI on November 5, 1985 and the following guidelines for exports were issued to raw jute balers:

a) the shipment period for exports would be three months (i.e., November 1985 to end-January 1986),
b) exports should be canalised through the JCI,
c) there will be no restrictions on the export of low grade raw jute like Tossa-4 and Tossa-5 and
d) the export of higher grade raw jute like Tossa-2 and 3 would be only upto 25 per cent of the total jute exports.

As per available information, 0.49 lakh bales of fibre was exported till March 1986 as against nil exports during the corresponding period last season.

The Government finalised a scheme to set up a raw jute buffer stock of about 6 lakh bales out of the JCI's purchases made under the price support operations during 1985-86. This scheme is operative from April 1, 1986. A Committee headed by the Jute Commissioner fixed the quota for each participating mill on the basis of average fibre consumption during November/December 1985. Till April 30, 1986, 56 mills including those in the nationalised sector, have given their consent to participate in the scheme. Based on current participation levels, the size of buffer stock would be 5.39 lakh bales. The carrying cost of the buffer stock is to be shared equally by the participating mills, the JCI and Jute Manufactures Development Council (JMDC).

Oilseeds

Production

The production of oilseeds* in 1985-86 is provisionally placed at 11.2 million tonnes as against 13.1 million tonnes in 1984-85 and 12.7 million tonnes in 1983-84 (Table III-13). The decline in production during the year was mainly due to drought in groundnut producing areas of Gujarat and Maharashtra. For 1986-87, the target fixed is 14.8 million tonnes. The Seventh Five Year Plan aims at raising the level of production of oilseeds to about 18.0 million tonnes at an annual compound growth rate of 6.7 per cent.

Table III-13: Oilseeds Production

(Lakh tonnes)

Year	Target	Actual
1980-81	110.0	93.7
1981-82	112.0	121.9
1982-83	119.0	100.0
1983-84	125.0	126.9
1984-85	130.0	131.0
1985-86	136.0	112.0

During 1985-86, production of groundnut — a major kharif crop is estimated lower at 52.00 lakh tonnes as compared with 67.44 lakh tonnes in 1984-85 — a fall of 15.44 lakh tonnes or 22.9 per cent. Production of rapeseed/mustard — the principal rabi crop which has shown an increasing trend since 1983-84, was also adversely affected by hailstorms in the Northern belt. Soyabean output showed substantial improvement from 6.14 lakh tonnes in 1983-84 to about 11.00 lakh tonnes in 1985-86. The Table III-14 gives details of oilseed-wise production for the last three years and the target for 1986-87.

Support Prices

During the year the Government announced a further increase of Rs.10 per quintal in the

* Comprising nine major oilseeds viz., groundnut-in-shell, rapeseed/mustard, sesamum, linseed, castorseed, safflower, nigerseed, sunflower and soyabean.

Table III-14: Oilseed-wise output

(Lakh tonnes)

Oilseeds	1983-84 (Revised)	1984-85 (Final)	1985-86 (Govt. estimates)	1986-87 (Target)
Groundnut-in-shell	70.85	67.44	52.00	76.07
Rapeseed/mustard	26.08	30.30	32.00	33.93
Sesamum	5.59	5.25	N.A.	6.10
Safflowerseed	5.01	4.97	"	5.25
Nigerseed	1.76	1.47	"	1.58
Sunflowerseed	3.00	3.65	"	4.58
Soyabean	6.14	9.33	11.00	11.32
Linseed	4.44	3.88	N.A.	4.37
Castorseed	4.05	4.69	"	4.80
Total	**126.92**	**130.98**	**112.00**	**148.00**

support prices of Groundnut, Soyabean and Sunflowerseed. The support price of Rapeseed/mustard was enhanced by Rs.15 per quintal. The Government also announced for the first time the support price for Safflowerseed. For the 1986-87 season the government on September 22, 1986 announced higher minimum support prices for kharif oilseeds such as Groundnut, Soyabean black, Soyabean yellow and Sunflowerseed. The support prices are set out in Table III-15.

Table III-15: Support prices for oilseeds

(Rupees per quintal)

Oilseeds	1982-83	1983-84	1984-85	1985-86	1986-87
Groundnut (in-shell)	295	315	340	350	370
Soyabean (Black)	220	230	240	250	255
Soyabean (Yellow)	245	255	265	275	290
Sunflowerseed	250	275	325	335	350
Rapeseed//mustard	N.A.	360	385	400*	N.A.
Safflowerseed	N.A.	N.A.	N.A.	400*	N.A.

* For rapeseed/mustard and safflowerseed the support price relates to the Marketing season i.e. 1985-86 crop marketed in 1986-87 and so on.
N.A.: Not Announced.

The Government also announced that NAFED would be the nodal agency for undertaking market support operations in oilseeds for a period of 5 years commencing from the 1985-86 season.

Imports of edible oils

The present level of output of oilseeds is not sufficient to meet the country's edible oil requirements. The Government has been, therefore, importing a large quantity of edible oils, as much as one third of the country's consumption requirements. The details of imports are given in Table III-16.

The imported edible oils are distributed through the Public Distribution System (PDS), as also to vanaspati manufacturers for use in the manufacture of vanaspati. A part of the Vanaspati Industry's requirements of imported edible oils is met at a concessional rate (depending upon the availability of indigenous edible oils/oilseeds) and a part at the commercial

Table III-16: Imports of Edible Oils

Oil year (November-October)	Quantity imported (lakh tonnes)	Value (Rupees crores)
1982-83	11.50	507.00
1983-84	16.34	1319.00
1984-85	13.68	1122.13
1985-86 — Nov. — June	5.15	234.10
1984-85 — Nov. — June	8.91	738.26

Source: Ministry of Food and Civil Supplies, Government of India.

rate. Allocation of imported edible oils to the Vanaspati Industry at a concessional rate of Rs.9,500 per tonne was reduced with effect from November 15, 1985 to 50 per cent of their total requirements from 60 per cent fixed earlier i.e. from July 1, 1985. Simultaneously, the predetermined issue price of imported oils to the Vanaspati Industry was also increased by Rs.2,000 per tonne to Rs.11,500 per tonne. The issue price of imported edible oils to States for PDS was also enhanced by Rs.1,000 per tonne from Rs.8,000 fixed on May 24, 1984 to Rs.9,000 per tonne. In January 1986, the allocation to the Vanaspati Industry was reduced further from 50 per cent to 40 per cent of the requirements following removal of the voluntary price agreement with the Vanaspati Industry. From February 8, 1986, the allocation was reduced further to 30 per cent. As already mentioned, additional quantities upto specified limits were being supplied to the Vanaspati Industry at commercial rate from June 1, 1983 to February 1985. Commencing from February 8, 1986 Government resumed supply after a gap of one year, of additional 10 per cent of the industry's requirements of oils at the commercial price of Rs.13,000 per tonne. However, following the sharp increase in prices of indigenous edible oils, Government increased the allocation of imported edible oils to the Industry at concessional rate of Rs.11,500 per tonne to 40 per cent of its requirements with effect from April 1, 1986 from 30 per cent as fixed on February 8, 1986, and further to 50 per cent from June 1, 1986. This was further stepped up to 60 per cent from July 1, 1986. The supply of additional quantity at the commercial rate was further raised to 20 per cent from August 1, 1986. Thus, as at the end of August 1986, the industry was receiving 60 per cent of its requirements at concessional rate of Rs.11,500 per tonne and additional 20 per cent at the commercial rate of Rs.13,000 per tonne. From April 1, 1986 upto July 31, 1986, the Government was supplying an additional 10 per cent imported edible oils to the Vanaspati Units in the Eastern zone (comprising of states of Assam, West Bengal and Orissa) and Southern zone (consisting of 4 Southern States) at a commercial rate of Rs.13,000 per tonne to maintain production of vanaspati at an adequate level in those regions.

The reduction in allocation of imported edible oils to the Vanaspati Industry in early 1986 was compensated by an increase in usage of indigenous oils. In view of the substantial increase in rapeseed/mustard production during the years 1984-85 and 1985-86 and to encourage the use of rapeseed/mustard oil in the manufacture of vanaspati, the Government had permitted the use of indigenous solvent extracted rapeseed/mustard oil in the manufacture of vanaspati for a period of one year from October 1, 1985 to the extent of 10 per cent. However, the use of indigenous expeller rapeseed/mustard oil was banned. With effect from November 15, 1985 limited use of expeller rapeseed/mustard oil upto 10 per cent of its requirements in the manufacture of vanaspati was permitted which was raised to 20 per cent with effect from January 15, 1986; to 30 per cent from February 1, 1986 and to 50 per cent with effect from May 5, 1986, as there was a sharp increase in the prices of indigenous edible oils commencing from May 1986, Government increased the allocation of imported edible oils to the Vanaspati Industry, but re-

duced the use of expeller rapeseed/mustard oil from 50 per cent to 30 per cent with effect from May 19, 1986 and further to 15 per cent from July 10, 1986. The use of the expeller rapeseed/ mustard oil in the manufacture of vanaspati was banned from August 1,1986.

Allocation of imported oils

To encourage the use of indigenous oils in the manufacture of vanaspati the Government had reduced the imports of edible oils in 1985-86. The allocation of imported oils to both PDS and Vanaspati Industry was much lower at 3.64 lakh tonnes and 3.07 lakh tonnes, respectively, upto June 1986 as compared to 5.28 lakh tonnes and 5.65 lakh tonnes, respectively, during the corresponding period last year. The allocation of imported edible oils during the last few years is as indicated in Table III-17.

Table III-17: Allocation of Imported Edible Oils to PDS and Vanaspati Industry

(Lakh tonnes)

Oil Year (November-October)	Public Distribution System	Vanaspati Industry	Total
1983-84	9.57	8.95	18.52
1984-85	7.27	7.68	14.95
1985-86 (Nov. — June)	3.64	3.07	6.71
1984-85 (Nov. — June)	5.28	5.65	10.93

In keeping with the policy of reduction in controls over industrial production, the informal price controls on vanaspati in operation since 1977 were withdrawn in January 1986. During the subsequent period of four months of decontrol, price of vanaspati went up by over Rs.35 to Rs.305 per tin of 15 kg. On the persuation of the Minister of Food & Civil Supplies, the Vanaspati Industry agreed to maintain the maximum retail price of vanaspati throughout the country at the rate of Rs.280 per 15 kg. tin (exclusive of local taxes).

In a bid to give a fillip to oilseeds production in the country, the 1986-87 Budget provided complete excise duty relief on production of refined oils using minor oilseeds such as soyabean, cottonseed, sunflower as well as ricebran oil. Similarly, solvent extracted refined oils as well as castor oil were exempted from excise duties. Vanaspati units using higher percentage of non-traditional oils such as ricebran oil, water-melon seed oil, etc., were also given excise duty relief. Further, the levy of excise duty of Rs.1,500 per tonne on costly refined edible oils proposed in the Central Budget 1986-87, was reduced later to Rs.750 per tonne in the case of refined oil from rapeseed/mustard to encourage the use of rapeseed/mustard oil and thereby its production also.

As a measure of liberalisation of credit controls, the Reserve Bank of India in April 1986 reduced across the Board, minimum margins on bank advances against oilseeds and vegetable oils by 15 percentage points, and exempted advances against high yielding and hybrid seeds used for growing oilseeds certified by appropriate authorities from all provisions of selective credit controls.

Sugarcane

According to the all-India second estimate of sugarcane, the area under sugarcane declined further to 28.19 lakh hectares during 1985-86 season (November-October), from 29.00 lakh hectares in 1984-85 or by 2.8 per cent. Almost all the States (barring Tamil Nadu, Madhya Pradesh and Andhra Pradesh) had reported declines. This decline was due mainly to unfavourable weather conditions during the sowing period.

Sugarcane production during 1985-86 was provisionally estimated at 173.0 million tonnes as compared with 173.6 million tonnes in 1984-85. Productivity (in terms of cane) is reported to have gone up to 61.37 tonnes per hectare in 1985-86 from 58.01 tonnes per hectare in 1984-85 and 55.98 tonnes per hectare in 1983-84. The target of sugarcane output for 1985-86 was fixed at 191 million tonnes; for the year 1986-87 the target is 195 million tonnes. Cane production which amounted to 189.5 million tonnes in 1982-83, declined to 174.1 million tonnes in 1983-84 and further to 173.6 million tonnes in 1984-85.

In the Seventh Plan, the target for 1989-90 has been fixed at 217 million tonnes, envisaging a growth rate of 3.81 per cent on an assumed base level of 180 million tonnes for 1984-85.

The Commission for Agricultural Costs and Prices (CACP) had recommended for the 1985-86 season a statutory minimum price of Rs.16.50 a quintal (Rs.16.00 per quintal for the previous season) for sugarcane linked to a basic recovery of sucrose of 8.5 per cent or below subject to a proportionate premium for every 0.1 per cent increase in the recovery above that level. The Government accepted the CACP's recommendation and fixed the price of sugarcane at Rs.16.50 a quintal (as against Rs.14.00 per quintal for 1984-85 season) linked to a basic recovery of 8.5 per cent or below with a premium of 19.412 paise per quintal for every 0.1 per cent increase in the recovery above the basic level. However, the State-advised prices which the sugar factories had to pay were higher than the statutory minimum. Actual prices paid by sugar factories ranged between Rs.16.50 and Rs.27.00 per quintal in 1985-86 as against Rs.21-22 per quintal in 1984-85 and Rs.20-21 per quintal in 1983-84.

With a view to providing encouragement to farmers for investing in inputs well before sowing, the Government, for the first time announced in advance, the support prices for sugarcane for the 1985-86 and 1986-87 sugar seasons. For the 1986-87 sugar season, the statutory minimum price has been fixed at Rs.17.00 per quintal by the Government.

Tea

Production of tea during 1985 reached an all time high of 657.3 million kgs. — 17.4 million kgs. or 2.7 per cent higher than the production of 639.9 million kgs. achieved during 1984. The increase in production was entirely due to an increase in North Indian tea output, which was mainly due to favourable weather conditions. The output of tea in Northern India during 1985 at 517.2 million kgs. was 25.8 million kgs. or 5.3 per cent higher than the production of 491.4 million kgs. during 1984. Production of tea in South India at 140.1 million kgs. during 1985, was, however, lower by 8.3 million kgs. or 5.6 per cent than the 1984 production of 148.4 million kgs.

Production of tea during 1986 (till June) at 199.7 million kgs. was about 40 million kgs. lower than that in the corresponding period of 1985 i.e., 239.7 million kgs. This was mainly due to a drop in production in North India to 127.7 million kgs. as compared with the output of 165.8 million kgs. during the corresponding period of the previous year. Production of tea in South India during this period was also lower at 71.9 million kgs. as against 73.9 million kgs. in the corresponding period last year.

According to provisional data, exports of tea during the financial year 1985-86 amounted to 222.9 million kgs., the highest level ever recorded since 1982-83. During 1984-85, exports were placed at 217.4 million kgs. Earnings from tea exports during 1985-86 were placed at Rs.674.25 crores which were, however, lower by Rs.97.14 crores than the earnings during the previous year viz., Rs.771.39 crores. The decline in export earnings, despite higher quantum of exports, was due mainly to declining trend in tea prices in the International market. The unit value realisation for the year 1985-86 at Rs.30.24 per kg. was about 14.8 per cent lower than the unit value realised in 1984-85 viz., Rs.35.48 per kg. Quick estimates for the quarter April-June 1986 showed that exports during

the period were lower at 24.9 million kgs. (value Rs.64.1 crores) as against 30.7 million kgs. (value Rs.95.0 crores) in the corresponding period of 1985. The unit value realised was about 16.7 per cent lower at Rs.25.76 per kg. as against Rs.30.91 per kg. in April-June 1985.

The Tea Marketing Control Order of 1984 remained operative during 1985 requiring the manufacturers of tea to sell 75 per cent of their output through auctions.

In a bid to boost exports in the wake of falling tea prices in the International market during 1985, the Government gradually reduced the Minimum Export Price (MEP). The Government had fixed Minimum Export Price for tea in November 1984. The MEP was changed from time to time depending upon the prices of tea in the International market. The Minimum Export Price of Rs.26 fixed on April 30, 1985 was subsequently revised to Rs.18 per kg. for the South Indian tea and Rs.22 per kg. for North Indian tea. Further, the other regulatory measures such as region-wise allocation, gradewise distribution and apportionment of exports as direct and auction-bought, were also withdrawn with effect from October 11, 1985.

With a view to ensuring adequate availability of tea in the domestic market, the Government had pegged total tea exports to the targeted-level of 220 million kgs. during 1985 as against 215 million kgs. in 1984. To ensure that the export target was realised, export licences for more than 229 million kgs. were issued in the light of previous experiences that actual shipments mostly fell short of the target. There were no restrictions on exports of tea during 1986 (till September).

The target of tea production for 1986-87 has been fixed at 677 million kgs. and for the terminal year of the Seventh Plan at 766 million kgs. On the basis of assumed base production level of 645 million kgs. during 1984-85, the compound growth rate envisaged in the Seventh Plan works out to 3.50 per cent. The targeted production is sought to be achieved by concentrating on measures to improve drainage and creation of irrigation facilities, adoption of improved cultural practices, better input management and control of pests and disease as well as by undertaking a large-scale programme for rejuvenation and gap infilling on 14,450 hectares during 1986-87. Moreover, a programme for replantation and new plantation of about 8000 hectares per annum has also been envisaged. A district-wise survey of development potential has been made and suitable areas for extension planting, replanting, etc. have been identified. Besides, the Union Government budget for 1985-86 has given incentive in the form of Tea Development Fund that would provide tax relief to the tea industry to the extent of profits of good years that are carried over for investment in tea gardens in the subsequent years.

Coffee

The Coffee Board had estimated the production of coffee during the 1985-86 season at 120 thousand tonnes, which is lower by 77 thousand tonnes or 39.1 per cent than the peak production of 197 thousand tonnes achieved during 1984-85. The production target fixed for 1985-86 season was 146 thousand tonnes. The decline in coffee production was due mainly to substantial fall in the production of Robusta variety. Production of Robusta at 50 thousand tonnes showed a significant decline of 66 thousand tonnes or 56.9 per cent from the production level of 116 thousand tonnes recorded in the preceding season. Production of Arabica variety at 70 thousand tonnes was lower by 11 thousand tonnes or 13.6 per cent as compared with the production level of 81 thousand tonnes during 1984-85. According to Coffee Board, coffee production during 1986-87 is expected to be at 160 thousand tonnes comprising of 83 thousand tonnes of Arabica and 77 thousand tonnes of Robusta varieties.

The Seventh Plan target of coffee production is fixed at 180 thousand tonnes, envisaging a compound growth rate of 1.8 per cent per annum,on the basis of an assumed base production level of 165 thousand tonnes during 1984-85.

On the demand side, domestic consumption during the calendar year 1985 was placed slightly higher at 54.9 thousand tonnes as compared with 53.5 thousand tonnes during 1984, indicating an increase of 2.6 per cent.

Exports during the financial year 1985-86, amounted to 99.3 thousand tonnes valued at Rs.275.0 crores as against 68.9 thousand tonnes valued at Rs.209.68 crores, during 1984-85 season. The unit value realisation during 1985-86, however, was lower at Rs.27.69 per kg. as against Rs.30.43 per kg. during 1984-85 season.

The Government, with effect from January 1, 1986, raised the export duty on coffee to Rs.600 per quintal from an earlier level of Rs.300 per quintal fixed on August 2, 1985, following the rise in the international prices of coffee.

The prices of coffee in the International market crossed the ceiling level of 145 cents per pound, fixed by the International Coffee Organisation (ICO) and ruled above 150.08 US cents per pound for the period from December 12, 1985 to February 18, 1986. The unprecedented rise in coffee prices was attributed mainly to severe drought in the major coffee growing areas of Brazil, the world's leading producer of coffee. In view of the upward trend in coffee prices, the ICO suspended the export quotas with effect from February 19, 1986. With a result, the country could export coffee without any quantity restriction.

Tobacco

According to the Ministry of Agriculture estimates, total area and production of tobacco during 1985-86 declined significantly from 430.6 thousand hectares and 472.8 million kgs. in 1984-85 to 395.0 thousand hectares and 440.0 million kgs. or by 8.3 per cent and 6.9 per cent, respectively (Table III-18). Almost all the major tobacco growing states recorded declines in area and production during 1985-86. In Andhra Pradesh the area and production of tobacco during 1985-86 showed declines of 13.3 and 12.6 per cent, respectively as compared to that of 1984-85. In Gujarat also, although area under tobacco showed a decline of 7.7 per cent production came down by a much lesser extent of 2.0 per cent. In Uttar Pradesh production declined by 28.3 per cent as compared to decline of 23.9 per cent in area indicating a fall in yield. Performance of important tobacco growing States during the last three years upto 1985-86 is indicated in Table III-18.

Table III-18: Area and Production of Tobacco in Important States

Area in '000' hectares
Production in million kgs.

States	1983-84		1984-85		1985-86 *	
	Area	Production	Area	Production	Area	Production
Andhra Pradesh	186.8	185.6	177.6	171.7	154.0	150.0
Gujarat	108.3	186.9	108.4	173.5	100.0	170.0
Karnataka	49.5	29.3	46.4	30.5	45.0	29.0
Tamil Nadu	12.3	16.7	12.6	16.7	12.0	16.0
Uttar Pradesh	12.8	17.7	18.4	26.5	14.0	19.0
West Bengal	15.2	15.4	15.7	16.5	16.0	15.0
Others	54.8	40.9	51.5	37.4	54.0	41.0
All India	**439.7**	**492.5**	**430.6**	**472.8**	**395.0**	**440.0**

* Provisional.

The area under Virginia Flue Cured (VFC) tobacco declined by 14.6 per cent from 152.3 thousand hectares in 1983-84 to 130.0 thousand hectares in 1984-85 while production during this period fell from 130.0 million kgs. to 109.4 million kgs. or by 15.8 per cent. To obtain an estimated production of 98.0 million kgs. of VFC tobacco in 1985-86, the Tobacco Board has accorded registration to an area of 92.5 thousand hectares in Andhra Pradesh and 17.0 thousand hectares in Karnataka.

According to provisional estimates of the Tobacco Board, exports of tobacco and tobacco products during 1985-86 amounted to 74.9 million kgs. valued at Rs.161.28 crores as against 88.1 million kgs. valued at Rs.175.2 crores during 1984-85. Export of unmanufactured tobacco during 1985-86 was also lower at 64.4 million kgs. valued at Rs.139.98 crores as compared to 74.7 million kgs. valued at Rs.157.87 crores exported during 1984-85. The decline in quantum of exports of unmanufactured tobacco was attributed mainly to lower offtake by UK, Egypt and some other important countries viz., Bulgaria, Belgium, Saudi Arabia and Japan. With a view to increasing exports of tobacco and tobacco products, the Government abolished the export duty on tobacco and also kept the minimum export price at the 1985 level.

The National Co-operative Tobacco Growers' Federation Limited (TOBACOFED) set up in 1983 is actively involved in purchase of tobacco. The TOBACOFED is also actively engaged in establishing internal markets as well as exploring export avenues in countries like Saudi Arabia and other Middle-East countries. The programme for purchase of non-virginia tobacco from growers by TOBACOFED during the current marketing season was considered in the Board meeting held at Anand on March 23, 1986. It was decided that the Gujarat State Co-operative Tobacco Growers' Federation Ltd., recently formed by the State Government, would undertake purchase of bidi tobacco from the growers during the current season. The TOBACOFED is expected to render all technical guidance and co-operation to the newly formed State Federation. The TOBACOFED proposes to have similar State level Tobacco Growers' Federations in other important non-virginia tobacco growing States. The concerned State Governments have been requested to take necessary steps for establishing the State level tobacco growers' federations. There are other co-operative societies in some States such as Andhra Pradesh, Karnataka and Tamil Nadu whose operations are nominal.

The Agricultural Produce Market Committees exist in all the important tobacco producing areas and in most of the committees tobacco has also been notified as one of the commodities coming under the purview of Agricultural Produce Markets Act. However, the market committees have not made much progress in organising marketing of tobacco on scientific lines. The committees have only been successful in isolated markets where the quantity of tobacco handled is small.

The marketing of VFC tobacco (1985-86 crop) commenced in February in Andhra Pradesh. The auction sales (introduced in 1984-85) were conducted in all the 23 auction floors of the Tobacco Board. In all, a total quantity of 80.4 million kgs. of VFC tobacco was sold at an average price of Rs.12.50 per kg. The highest bid of Rs.25.80 per kg. was recorded in auctions for virginia tobacco grown in light soil regions and no marketing problems were reported. In Karnataka, a total quantity of 17.6 million kgs. of VFC tobacco was sold at an average auction price of Rs.11.07 per kg. The maximum price realised was Rs.25.70 per kg. as against Rs.25.30 realised last season.

Keeping in view the present trend in internal consumption and exports, it was initially envisaged that the production of tobacco in India needs to be stepped up from the present base level estimates of 460 million kgs. in 1984-85 to 540 million kgs. by the end of the Seventh Plan (1989-90). To achieve the target, several development schemes were originally proposed. However, in the absence of any fund allocations in the Seventh Plan, the emphasis will be laid on improving the productivity of tobacco.

Table III-19: Trends in Production, Export, Consumption etc., of Non-foodgrain Commodities

Year	Oilseeds++		Tea (Million Kgs.)		Coffee ('000 tonnes)			Sugarcane++ (in terms of cane)		Tobacco (Million Kgs.)		
	Production (Million tonnes)	Yield per hectare (Kgs.)	Production+	Exports£	Production$	Exports£	Internal Consumption +	Production (Million tonnes)	Yield hectare (Kgs.)	Production	Exports	Internal Consumption £
1	2	3	4	5	6	7	8	9	10	11	12	13
1980-81	9.4	532	569.6	231.7	118.6	86.3	47.7	154.3	59.1	481	78.5	375.1
1981-82	12.1	639	560.0	224.2	150.0	83.8	50.8	186.4	58.4	520	116.9	384.1
1982-83	10.0	563	560.7	194.1	130.0*	83.8	54.0	189.5	56.4	582	93.9	395.8
1983-84	12.7	679	581.5	202.3	105.0*	71.2	56.1	174.1	56.0	493	90.0	..
1984-85	13.1	660	639.9	217.4	197.0*	68.9*	53.5	173.6	58.0	473	74.7	..
1985-86	11.2‡	591	657.3	222.9	120.0	99.3	54.9	173.0‡	..	440‡	64.4	..

++ – Figures relate to November-October
+ – Figures relate to Calendar year
£ – Figures relate to Financial year
$ – Figures relate to October-September
‡ – Estimated achievement
* – Latest revised estimates.

A package of practices will be popularised among the growers. The transfer of technology is to be effected through the training and visit programmes.

PRODUCTION STRATEGY AND MEASURES

In the Seventh Plan, target fixed for agricultural output is 3.7 per cent per annum. To attain this target, the following major programmes of development have been included in the Seventh Plan:

i) Special Rice Production Programme in the Eastern Region,

ii) National Oilseeds Development Project,

iii) National Watershed Development Programme for Rainfed Agriculture,

iv) Development of Small and Marginal Farmers and

v) Social Forestry.

The year 1985-86 (first year of the VII Plan) witnessed increased agricultural production, despite severe weather aberrations. This was due mainly to the continued emphasis on expansion of irrigation, increased use of fertilisers and high yielding varieties of seeds, improved agricultural implements and machinery, desert development programme, etc., (Table III-20). Increasing attention is being given to dryland farming in view of its importance in increasing production all over the country. In view of the shortages of edible oils and pulses, special measures are being taken to augment their production during the year. The salient features of the measures taken during 1985-86 are as under:

1. In order to ensure continuous review and co-ordination of major policy issues including those having a bearing on agricultural production, weekly meetings of officials of various Departments concerned with agriculture were arranged under the Chairmanship of Minister of Agriculture.

2. The Department of Agriculture and Co-operation arranged periodically National Conferences (in which States are represented) to draw up production programmes for both *kharif* and *rabi* seasons.

3. It was proposed to complete soil surveys during the Seventh Plan period so that an appropriate land use policy for planning of agricultural growth could be evolved.

4. The progress of rainfall and the position of water level in major reservoirs of the country were reviewed every week by the Ministry of Agriculture and other concerned Departments to prepare contingency plans for the affected areas with a view to minimising the impact of unfavourable weather.

5. The identified gaps in the technology were discussed in the monthly meetings of the officials of the Ministry of Agriculture and scientists of ICAR with a view to promoting research and transferring the technology with least time-lag through demonstrations and extension.

6. An Expert Group was constituted to examine the economic rationality of present cropping pattern and to determine socially optimum cropping pattern for different regions. Intensive use of land resources through adoption of double cropping, multiple cropping, relay cropping are likely to be initiated on an extensive scale.

7. A continuous review on a weekly basis of the position regarding irrigation in each State was undertaken with a view to taking timely corrective action.

8. The Department of Agriculture organised regional Conferences to assess major input requirements with a view to planning their timely procurement and supply. These conferences ensured that almost the entire requirement of major inputs in both quantitative and qualitative terms during the year was met.

9. Several Centrally sponsored projects having similar characteristics were grouped together under umbrella type projects to ensure ef-

Table III-20: Some Key Indicators of Agricultural Inputs

Item	Unit	1970-71	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86 Ant. Ach.
1	2	3	4	5	6	7	8	9
A. Seeds								
(i) Production of Breeder Seeds	Thousand Qtls.	—	5.27	3.91	17.07	30.00	28.82	32.00
(ii) Production of Certified Seeds	Lakh Qtls.	—	21.86	24.18	36.61	41.26	49.97	54.80
(iii) Distribution of Certified/ Quality Seeds	Lakh Qtls.	—	25.01	29.81	42.06	44.97	48.46	55.88
B. Distribution of Seed Minikits	Lakh Number	—	1.06	6.12	23.78	54.92	63.05	46.75
C. Fertiliser Consumption (NPK)								
(i) Total	Lakh tonnes	21.77	55.16	60.64	63.88	77.10	82.11	90.00
(ii) Per hectare	Kgs.	13.13	31.83	34.25	36.08	43.55	46.38	..
D. Area under High Yielding Varieties	Million ha.	15.38	43.07	46.49	47.48	53.74	55.42	57.40
E. Consumption of Pesticides (Technical Grade Material)	Thousand tonnes	24.32	45.00	47.00	50.00	55.00	56.00	60.00

Ant. Ach. : Anticipated Achievement

Source: Ministry of Agriculture, Government of India.

fective implementation. Such grouping, it was hoped, would enable concurrent monitoring for timely corrective action.

10. Increasing funding of minor irrigation and soil conservation work under IRDP, NREP and RLEGP Programmes to give boost to agricultural production was continued.

Besides these programmes, closer monitoring of drought relief funds, refining the data on cost of production of crops with a view to fixing prices more realistically to motivate farmers for augmenting production, closer review of agricultural programmes of States by senior officers of the Ministry of Agriculture by visiting States at the time of sowing of *kharif* and *rabi* seasons, field visits by States and Multidisciplinary Central Teams, evaluation and monitoring of agricultural programmes including availability of all inputs right upto the district level, improvement in agricultural strategy by increasing use of computers, extensive use of modern management techniques in the Department of Agriculture, were some of the other measures taken during the year to increase production capabilities.

General Programmes

High Yielding Varieties Programme

Expansion of area under High Yielding Varieties continued to be one of the main planks of the strategy for increasing production during 1985-86. The area covered under HYVP (estimated) increased to about 57.4 million hectares in 1985-86 (but was less than the target of 58.8 million hectares or by 1.4 million hectares) from 55.4 million hectares anticipated to have been achieved in 1984-85. The target for 1986-87 has been fixed 60.6 million hectares with major emphasis for paddy at 25.8 million hectares followed by wheat at 20.7 million hectares (Table III-21).

The HYVP was supported by Central Sector Schemes of (a) Minikit Demonstration Programme for popularisation of newly released varieties suitable under different agro-climatic conditions, (b) Establishment of Community Nurseries for Rice, (c) Maize Demonstration Scheme in tribal/backward areas, (d) State level training of extension workers to disseminate latest production technology, (e) Replace-

Table III-21: Crop-wise Coverage of Total Area and Area Under High Yielding Varieties

(Million hectares)

Crop	1981-82		1982-83		1983-84		1984-85		1985-86		1986-87
	Total Cropped Area	Area under HYV	Total Cropped Area	Area under HYV	Total Cropped Area	Area under HYV	Total Cropped Area	Area under HYV	Total Cropped Area	Area under HYV	Area under HYV Target
1	2	3	4	5	6	7	8	9	10	11	12
Paddy	40.7	19.7	38.3	18.8	41.2	21.7	41.2	23.4	..	25.1	25.8
Wheat	22.1	16.7	23.6	17.8	24.7	19.4	23.6	19.6	..	19.5	20.7
Jowar	16.6	3.9	16.4	4.4	16.4	5.3	15.7	5.1	..	5.3	5.8
Bajra	11.8	4.6	10.9	4.7	11.8	5.4	10.6	5.2	..	5.3	5.9
Maize	5.9	1.6	5.7	1.7	5.9	1.9	5.8	2.1	..	2.2	2.4
Total	**97.1**	**46.5**	**94.9**	**47.4**	**100.0**	**53.7**	**96.9**	**55.4**	..	**57.4**	**60.6**

Source: Ministry of Agriculture, Government of India.

ment of rust-susceptible wheat varieties in hill areas with rust-resistant varieties.

The Minikit Demonstration Programme envisages distibution of small quantities of seeds to a large number of farmers free of cost to enable them grow the new varieties in small portion of their holdings. The distribution of such minikits of rice, wheat and millets during 1985-86 was estimated at 17.00 lakhs as against 20.74 lakhs in 1984-85.

Community Nurseries Programme for rice aims at motivating the farmers to adopt the practice of transplantation and also enabling them to take up early planting of rice to get their fields vacated for timely sowing of succeeding *rabi* crop. Subsidy at the rate of Rs.1,500 per hectare is given by the Government for raising community nurseries at Government farms as well as private lands for sharing the seedlings with farmers of the area. Against the target of 13,700 hectares under community nurseries for 1985-86, achievement was estimated at12,500 hectares during the year.

The Maize Demonstration Scheme in tribal/ backward areas which aims at encouraging the tribals to adopt the latest maize production technology which was continued during 1985-86 and 1,842 maize demonstration programmes were estimated to have been organised as against 1,600 demonstrations in 1984-85.

The Programme of organising State-level Training Courses in production technology of various crops was continued during 1985-86. During the year, 60 training courses on rice, 52 courses on millets and 20 courses on wheat were organised.

In order to check the spread of rust diseases in wheat, the General Sector Scheme for replacement of rust susceptible wheat varieties in hill areas with rust resistant varieties was restarted during 1985-86. Under this scheme, a total quantity of 200 quintals seeds of 'rust resistant' varieties of wheat was supplied to Uttar Pradesh, Himachal Pradesh, Jammu & Kashmir and Tamil Nadu for free distribution to the farmers in hill areas where wheat rust inoculam develops in the off-season of summer and, subsequently, spreads to the plains in the main crop season.

Seeds

During 1985-86, about 55.88 lakh quintals of quality/certified seeds are estimated to have been distributed as against 48.46 lakh quintals in 1984-85. Production of certified seeds was placed at 54.80 lakh quintals as against the

actual production of 49.97 lakh quintals in 1984-85 (Table III-20). Breeder seeds production during 1985-86, reached 0.32 lakh quintals (estimated) from 0.29 lakh quintals in 1984-85.

During the year 1984-85, 4.30 lakh quintals of foundation seeds were produced as against 1.09 lakh quintals in 1980-81. The target of production for 1985-86 was fixed at 3.03 lakh quintals in view of the carry-over stocks.

The most significant achievement of the Sixth Plan in the seeds sector was the successful completion of the World Bank aided National Seeds Programme (Phase I and Phase II). Substantial progress was made in setting up of infrastructural facilities for production, processing and storage of seeds in the States of Andhra Pradesh, Bihar, Haryana, Karnataka, Orissa, Punjab, Rajasthan, Maharashtra and Uttar Pradesh. In the Seventh Plan, Phase III of the National Seeds Programme would be launched benefitting the States of Assam, Madhya Pradesh, Gujarat, West Bengal, Tamil Nadu as well as the North-Eastern States/ Union Territories of Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Tripura. Additional requirements of States already covered under the first two phases of the Programme would also be met. This phase would aim at creating additional processing capacity of 10.00 lakh quintals and storage capacity of 15.00 lakh quintals. Farm development activities would also be undertaken in 5,000 hectares for production of seeds.

During the calendar year 1985, 23,753 quintals of seeds were exported, comprising mainly of wheat, maize, ragi and vegetables. The National Seeds Corporation set up an export cell to identify potential export markets for permissible varieties and categories of wheat.

A major component of seeds management is maintenance of buffer stock for meeting the contingent requirements, particularly in the event of natural calamities like floods and droughts. It is estimated that a quantity of 2.66 lakh quintals of seeds would be kept in reserve during 1985-86. The target for the terminal year of the Seventh Plan is 8.48 lakh quintals.

The Central Seeds Committee recommended 52 new and improved varieties of seeds of different crops for cultivation in different parts of the country. Altogether 237 new varieties of different crops were notified during the year under the quality control provision of Seeds Act.

Apart from the production and distribution of foundation and certified seeds, the National Seeds Corporation continued to implement the Central Plan Schemes for maintenance of buffer stocks of seeds and strengthening of infrastructural facilities for processing and storage of seeds also. Seeds testing is the key element of quality control in seeds. A total of 39,093 samples were tested in the quality control laboratory of the Corporation. In view of the carry over stocks available with the Corporation, targets for 1985-86 for production of breeder, foundation and certified seeds were fixed lower at 0.12 lakh quintals, 0.42 lakh quintals and 6.46 lakh quintals, respectively.

Irrigation

The Sixth Plan provided an outlay of about Rs.10,203 crores for major, medium and minor irrigation. It was anticipated that gross irrigation potential of 13.7 million hectares will be added during the Sixth Plan, taking the total potential to about 70.3 million hectares by the end of the Sixth Plan comprising about 32.3 million hectares from major and medium irrigation projects and 38.0 million hectares from minor irrigation. Against this, actual irrigation potential created was 11.3 million hectares, leaving a gap of 2.4 million hectares. Total irrigation potential at the end of the Sixth Plan, was around 67.9 million hectares instead of the targeted 70.3 million hectares. The Seventh Plan has approved an outlay of Rs.14,361 crores on major, medium and minor irrigation schemes for creating additional potential of 12.9 million hectares (Table III-22).

Table III-22: Development of Irrigation Potential

(Million hectares)

Item	As at the start of VI Plan (1979-80)	VI Plan (1980-85) Target	VI Plan (1980-85) Achievement	VI Plan (1980-85) Shortfall or Excess	VII Plan (1985-90) Target	1985-86 Target	1985-86 Anticipated Achievement	1986-87 Target
1	2	3	4	5	6	7	8	9
I. Major & Medium	26.6	5.7	3.9	−1.8	4.3	0.6	0.6	0.7
II. Minor (a+b)	30.0	8.0	7.4	−0.6	8.6	1.7	1.6	1.6
(a) Surface	8.0	1.0	1.7	+0.7	1.5	0.3	0.3	—
(b) Ground water	22.0	7.0	5.7	−1.3	7.1	1.4	1.3	—
Total (I+II)	**86.6**	**13.7**	**11.3**	**−2.4**	**12.9**	**2.3**	**2.2**	**2.3**

Source: Ministry of Water Resources, Government of India.

The target for the first year of the Seventh Plan i.e., 1985-86 was 2.3 million hectares with an outlay of Rs.2,353 crores (Table III-22). This comprised 0.7 million hectares with an outlay of Rs.1,846 crores for major and medium irrigation and 1.6 million hectares with an outlay of Rs.487 crores (excluding outlay of institutional sector) for minor irrigation (Table III-23).

Table III-23: Financial Outlay (Major & Medium and Minor Irrigation)

(Rupees crores)

Item	1980-81	1981-82	1982-83	1983-84	1984-85	VII Plan (Approved)	1985-86 (Approved)
1	2	3	4	5	6	7	8
A. Major and Medium Irrigation	1211	1357	1510	1703	1833	11556	1846
B. Minor Irrigation	598	564	604	715	804	6305	1049
of which:							
i) Government Sector	299	301	328	389	424	2805	487
ii) Institutional	299	263	276	326	380	3500	562
Total (A+B)	**1809**	**1921**	**2114**	**2418**	**2637**	**17861**	**2895**

Source: Ministry of Water Resources, Government of India.

A Centrally Sponsored Scheme for strengthening the State Ground and Surface Water (Minor Irrigation) Organisations through procurement of equipment for exploration and ground water development with 50 per cent matching assistance from the Centre is in operation since 1982-83. Under this scheme, an amount of Rs.10.62 crores has so far been released as Central share to the States. The scheme has helped in accelerating the pace of ground water development in the States. This scheme would be continued during the Seventh Plan. For 1985-86, the anticipated Central outlay under the scheme was placed at Rs.3.75 crores. Another Centrally Sponsored Scheme for encouraging irrigation through non-conventional methods such as sprinkle/drip systems, water turbines, hydrant and man/animal operated pumps, introduced in 1982-83, would also be continued during the Seventh Plan. Under this scheme, subsidy on IRDP pattern will be made available to the farmers with 50 per

cent matching share of the subsidy from the Central Government to benefit particularly farmers in undulating terrain areas, water scarce and other backward areas of the country where there is no provision for electricity. During the last 3 years of the Sixth Plan, Central assistance to the tune of Rs.2.69 crores was released under this scheme.

A Centrally Sponsored Scheme for rectifying minor defects in pumpsets was introduced in 1985-86 for two years to create awareness among farmers about the energy efficiency and better water discharge which can be achieved by installation of properly matched pumping systems and efficient foot valves. The Scheme is expected to cover 4,400 diesel pumpsets on pilot basis. Under this scheme, 100 per cent Central assistance will be given to some selected States where there is a concentration of diesel pumpsets for providing subsidy within approved ceilings. During 1985-86, it was proposed to take up rectification of 1,400 pumpsets at a cost of Rs.15 lakhs.

A Centrally Sponsored Scheme to assist small and marginal farmers for increasing agricultural production, introduced in 1983-84, continued to operate in 1985-86. Under this scheme, a sum of Rs.3.5 lakhs per block was earmarked for minor irrigation works. The subsidy would be provided on IRDP pattern for digging of tubewells, shallow tubewells and providing irrigation pumpsets, etc. Under the scheme, community minor irrigation schemes also could be taken up from the Government funds with linkage with institutional finance. Moreover, the scheme also provided for taking up free bores in the land of small, marginal and tribal (small and marginal) farmers subject to a cost ceiling of Rs.3,000, Rs.4,000 and Rs.5,000 per borewell, respectively. Expenditure above these ceilings had to be borne by the beneficiaries.

Command Area Development Programme

The Centrally Sponsored Command Area Development Programme launched at the beginning of the Fifth Plan with the specific objectives of bringing about speedier utilisation of irrigation potential and stepping up agricultural production in selected major and medium irrigation projects in the country presently covers 133 selected major and medium projects in 18 States and one Union Territory. The approved outlay for 1985-86 was Rs.276 crores as against Rs.215 crores in 1984-85 (Table III-24). The target for construction of field channels for 1985-86 at 8.6 lakh hectares was exceeded by 1.6 lakh hectares. As regards land levelling/shaping, against the target of 2.4 lakh hectares for 1985-86, the anticipated achievement was 1.9 lakh hectares (Table III-25).

Table III-24: Expenditure Incurred under Command Area Development Programme

(Rupees crores)

Sector	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87 (Approved outlay)
1	2	3	4	5	6	7
Total	**115**	**139**	**209**	**215**	**276**	**307**
of which:						
Central Sector	36	45	73	69	70	93

Source: Ministry of Water Resources, Government of India.

Table III-25: Achievements under Command Area Development Programme

(Lakh hectares)

Item	1981-82	1982-83	1983-84	1984-85	1985-86	
					Target	Anticipated Achievement
1	2	3	4	5	6	7
Construction of field channels	9.8	11.4	13.8	10.7	8.6	10.2
Land levelling/shaping	0.8	0.9	1.0	0.9	2.4	1.9

Source: Ministry of Water Resources, Government of India.

In view of the Seventh Plan strategy for consolidation of assets already created,the emphasis was on completion of the projects taken up before 1980 under Command Area Development Programme so that they would be completed by the end of this Plan. High priority in respect of both physical and financial resources was,therefore,accorded to 42 projects to be completed during the Seventh Plan period. The finance for the CAD programme was expected to come from three sources, namely, Central assistance to the States on a matching basis for certain selected items, the State Government's own resources and institutional credit for on farm development, marketing and storage. *Warabandhi*, adaptive trials, demonstration, training, evaluation studies and crop compensation also were items on which expenditure was shared equally between the Centre and the States.

Since 1984-85, all Command Area Development Authorities were asked to take up crop cutting experiments in their commands to assess and monitor the increase in agricultural productivity/production. The crop cutting experiments conducted showed that instead of the 1.7 tonnes per hectare considered as the average yield for irrigated areas, some commands gave average yield of 2 to 3 tonnes per hectare. It is envisaged that during the Seventh Plan, greater participation of the farmers in the various activities of CADP would be encouraged through the formation of Farmers' Co-operatives. Besides, the responsibility of distributing water within their jurisdiction, these co-operatives may take the function of providing inputs and of market facilities for output.

Fertilisers and Manures

Fertiliser consumption in 1985-86 is expected to be about 90.0 lakh tonnes of nutrients as compared to the actual consumption of 82.1 lakh tonnes in 1984-85 (Table III-26). At the end of the Seventh Plan, fertiliser consumption is expected to reach a level of 135-140 lakh tonnes. Nearly 60 per cent of the country's total fertiliser requirements are produced within the country and the balance is met by the imports. Country's fertiliser production rose from 41 lakh tonnes in 1981-82 to 52 lakh tonnes in 1984-85. During 1985-86, the production is estimated to increase to about 55 lakh tonnes.

Considering the need for enabling the co-operative and other institutional agencies in the states to store inputs etc., in inaccessible areas in advance of the season, short-term loans to the tune of Rs.260 crores were made available to the States during 1985-86. Out of this, an amount of Rs.126 crores was sanctioned to the States during *kharif* season and the balance in *rabi*.

Fertiliser distribution work is undertaken through a net work of sale-points which numbered about 1.56 lakhs as on March 31, 1985. Though the number of fertiliser sale points showed a continuous increase, they were in-

Table III-26: Consumption of Fertilisers

(Lakh tonnes)

Year (April-March)	Nitrogenous (N)	Phosphatic (P_2O_5)	Potassic (K_2O)	Total
1	2	3	4	5
1980-81	36.8	12.1	6.2	**55.1**
1981-82	40.7	13.2	6.7	**60.6**
1982-83	42.2	14.4	7.3	**63.9**
1983-84	52.0	17.3	7.8	**77.1**
1984-85	54.9	18.9	8.3	**82.1**
1985-86*	60.0	20.0	10.0	**90.0**

* Anticipated achievement.

Source: Ministry of Agriculture, Government of India.

adequate to cope up with the distribution work. Therefore, the Ministry of Agriculture urged the States to motivate the co-operatives to open additional sale points, particularly in dry farming areas and newly irrigated areas. For 1985-86, a target of additional 15,000 sale points was fixed.

Efforts to supplement the use of chemical fertilisers with organic manure continued during 1985-86. Production of rural and urban compost was estimated at about 240 million tonnes and 6.50 million tonnes, respectively. The coverage of areas under green manures was of the order of 5 million hectares of cultivable land receiving sewage/sullage irrigation.

In order to increase fertiliser consumption, an Intensive Fertiliser Promotion Campaign was launched in 1982-83 in 104 selected districts having good rainfall/irrigation facilities but relative low fertiliser consumption level. This campaign was continued during the year 1985-86. Based on the recommendations of the Committee set up by the Government for a comprehensive review and for suggesting modifications in the Fertiliser (control) Order, 1957, the Government issued an up-dated order viz., the Fertiliser (control) Order, 1985, to enable the Central and the State Governments to enforce the provisions of the law more effectively, thereby ensuring the supply of right quantity of fertilisers and of correct weight at pre-determined prices to all the farmers throughout the country.

Plant Protection Measures

India has adopted the practie of Intergrated Pest Management as an integral part of crop protection policies. The 13 Central Plant Protection Stations and 19 Central Surveillance Stations carried out rapid roving surveys in various parts of the country. The crops covered were rice, wheat, pulses, oilseeds, sugarcane, etc. Surveys in the disease-prone areas (selected on a random basis) aggregating to about 6.5 lakhs hectares were conducted.

With a view to reducing dependence on use of chemical methods of plant protection to the minimum, the Government has laid great stress on the use of biological methods. 29 Central Plant Quarantine and Fumigation Stations at all international airports, seaports and land frontiers provide the necessary quarantine services to all the imported plants and plant materials as well as to those materials exported from India

in respect of which the importing countries require such services. During the year, screening of seeds of wheat and other crops (68,716 tonnes), fresh and dry fruits (3,480 tonnes), cotton bales (18,539 numbers), other plant materials (18,583 tonnes) and live plants (16,189 numbers) imported from various countries was done by these stations to check the presence or otherwise of exotic pests and diseases. The anticipated demand for various pesticides was estimated at 66,000 tonnes for 1985-86, which would be 10,000 tonnes more than the quantity consumed in 1984-85. In order to ensure equitable supply of key pesticides, a quantity of 14,000 tonnes (technical grade material) of 8 commonly used and indigenously manufactured pesticides was allocated to various States/Union Territories under the 50 per cent Distribution Scheme of the Government of India during 1985-86.

Under the Centrally Sponsored Scheme viz., Control and Eradication of Pests and Diseases of Agricultural Importance, Central assistance amounting to Rs.439 lakhs has been extended to various States/Union Territories to cover an area of about 46.97 lakh acres during 1985-86.

Against a planned task of covering 5 lakh acres, an area of 3,05,977 acres had already been covered through spraying on cotton, sugarcane and gram in the States of Haryana, Punjab, Karnataka and Gujarat and on cashew/rubber plantations in Kerala, Karnataka and Goa. In addition, aerial seeding for afforestation was done in Madhya Pradesh and Maharashtra. It is anticipated that the total coverage during 1985-86 will exceed the target of 5 lakh acres as orders had been secured for further spraying on cashew plantations in the States of Kerala, Karnataka and Goa as also spraying on a mustard crop in the State of Haryana and aerial seeding operations in Badrinath area in Uttar Kashi.

During 1986-87, the Directorate tentatively proposes to undertake aero-chemical operations over an area of 7.5 lakh acres under cotton, sugarcane, gram, mustard and groundnut and plantations of cashew and rubber.

Agricultural Implements and Machinery

The Indian tractor industry which made rapid strides in recent years, had an installed capacity of 1 lakh tractors per annum. In 1985-86, more than 80,000 tractors, 4,600 power tillers, 450 crawler tractors and 250 self-propelled and tractor-drawn combines were expected to be sold. The States of Punjab and Haryana had made significant progress in the field of manufacturing of tractor-drawn implements such as disc-ploughs, disc-harrows, seed-cum-fertiliser drills. Special efforts made during the year for adoption of these implements showed good results in the States of Andhra Pradesh, Maharashtra, Tamil Nadu, Gujarat and Madhya Pradesh. The Central Farm Machinery Training and Testing Institute, Budni (Madhya Pradesh) and the Northern Region Farm Machinery Training and Testing Institute, Hissar (Haryana) increased their testing operation of large range of agricultural machinery and implements by 10 per cent. The Institute at Budni held a special training camp for tractor using farmers besides imparting training to foreign nationals from Tanzania and Kenya. Agricultural Machinery Review and Release Committee, set up in 1983 for the purpose of identifying, reviewing and releasing of improved agricultural implements and machinery designed and developed by the research institutions, considered various proposals received from research institutions and released 9 implements for the benefit of small and marginal farmers. A Centrally Sponsored Scheme for establishment of Farmers' Agro-Service Centres and popularisation of bullock drawn implements and hand tools is being implemented in 600 dryland blocks in 9 States. This scheme, while being continued in the Seventh Plan, would be further extended to cover additional 500 dryland blocks in 11 States. With a view to standardise agricultural implements and hand tools, 15 new standards were released during the year.

Agro-Industries Corporation

Agro-Industries Corporation had been set up in 18 States. The business turn-over of all the

Corporations put together registered an appreciable increase to an estimated Rs.600 crores in 1984-85 from Rs.415 crores in 1983-84 and was expected to exceed Rs.650 crores in 1985-86. Though these Corporations were set up with the basic objective of being the lead institutions in the manufacture of agricultural implements, distribution of inputs was an additional activity assigned to them. This provision resulted in as much as 60 per cent of their total turn-over confining to input distribution. The State Governments and the Agro-Industries Corporations have been advised to check this shift in their activities and ensure that atleast 30 per cent of their total turnover is accounted for by agricultural engineering activities. The performance of Gujarat, Maharashtra, Madhya Pradesh and Punjab Agro-industries Corporations has been commendable. Besides achieving significant improvement in their annual turn-over, these Corporations have done appreciable work in manufacturing and distribution of implements and tools, manufacture of pesticides and other agro-based products.

Agricultural Extension

The National Agricultural Extension Project (NAEP) had been formulated and introduced with a view to consolidating experiences and achievements gained in the first phase of the project on Reorganised Extension under the Training and Visit (T & V) System in operation in some States. In collaboration with the World Bank, the Directorate of Extension organised workshops on a monthly basis in all the 14 States where T & V programme was in operation in order to improve the quality of monthly and fortnightly training. An innovative project in the Central Sector for establishment of a Centre for Management in Agricultural Extension at the National Institute of Rural Development (NIRD), Hyderabad, has been taken up and all the preliminaries in this regard have been finalised. National Extension Advisory Committee was formed during the year 1985-86 to give the technical policy guidelines for project implementation including research extension linkage. Another national level committee formed during the year was the Project Funding Committee to consider and approve special sub-projects submitted under the National Agricultural Extension Project. The Directorate of Extension continued to guide the State Departments of Agriculture in planning, co-ordinating, implementing and evaluating the training programmes for extension personnel, farmers, farm women and farm youth to improve their knowledge and skills leading to improved performance. The Extension Education Institute at Anand (Gujarat), Rajendranagar in Hyderabad (Andhra Pradesh) continued to impart post-graduate training in Extension work. These two Institutes and the Extension Education Institute at Nilokheri (Haryana) have been meeting the increasing need of training of field extension functionaries.

Under the Farmers' Exchange Programme, 500 farmers from agriculturally less developed areas were sent to such States where considerable progress had taken place in horticulture. Financial and technical assistance were provided to the recognised voluntary organisations working at the national level for organising short-duration training camps and visits of farmers from one State to another. The Directorate of Extension continued to provide information support to extension programme by bringing out multi-media materials and supplying them to the State extension agencies. Short agricultural instructional and research films continued to be produced by the Directorate in collaboration with the Ministry of Information and Broadcasting and the prints of these films, in different regional languages, continued to be distributed to all the concerned State Departments of Agricultural and Extension Education Institutes for screening in the rural areas. During 1985-86, 14 such films were expected to be produced.

Soil and Water Conservation Programme

During the Sixth Plan, an area of about 5.98 million hectares was treated with various soil and water conservation measures at a cost of Rs.548.23 crores as against the target of 6.5 million hectares. Another 1.10 million hectares was likely to be treated at a cost of Rs.132.99

crores during 1985-86. Under the programme for restoration of fallow lands other than current fallows during 1982-83 to 1984-85, an area of 9.81 lakh hectares was restored; out of this, 4.61 lakh hectares were brought under productive cultivation including horticulture and 5.20 lakh hectares under utility trees and improved grass-lands. The programme was continued during 1985-86.

The Centrally Sponsored Scheme of Soil Conservation in the catchment areas of River Valley Projects initiated in the Third Plan was in operation in 27 such catchment areas of river valleys, covering 17 States and Damodar Valley Corporation catchment areas. The pattern of assistance envisaged was 100 per cent Central assistance, comprising 50 per cent grant and 50 per cent loan advanced to the States. The implementation of the programme was based on identified priority watersheds. A total number of 724 priority watersheds had been taken up. Out of an estimated 23.5 million hectares of priority watershed areas needing treatment, 1.94 million hectares only could be covered till the end of the Sixth Plan. It was proposed to enlarge the programme with a target of 1.0 million hectares during the Seventh Plan.

The Scheme of watershed management in the catchment areas of flood prone rivers of Gangetic Basin was initiated during the Sixth Plan in 8 catchments. The Sixth Plan target was to treat 2.42 lakh hectares with an outlay of Rs.50 crores. Of this, about 1.6 lakh hectares were treated by the end of 1984-85, involving an expenditure of Rs.30.48 crores. During 1985-86, the scheme was continued in all the 8 catchments and an area of 0.5 lakh hectares was expected to be treated with an outlay of Rs.12.90 crores.

The All-India Soil and Land Use Survey Organisation continued to carry out soil surveys and promote modern techniques of survey operation including use of aerial and remote technology to meet the data requirements of the development programmes. Under FAO/UNDP Projects, the Organisation had established a Remote Sensing Centre which carried out studies with visual and machine supported techniques for mapping of soils, land use, soil and land degradation. During 1985-86, an area of 66 lakh hectares was expected to be covered by priority delineation survey, 4.14 lakh hectares by detailed soil survey, 8 lakh hectares by special surveys and 828 blocks by sample/soil survey.

The scheme for control of shifting cultivation implemented in the Union Territories of Arunachal Pradesh and Mizoram with 100 per cent Central assistance, aims at the settlement of shifting cultivators or Jhumia families on permanent cultivation by providing one hectare of agricultural land with irrigation facilities and one hectare for horticulture and plantation. As against the Sixth Plan target of settling 700 families, including those partly covered during the previous Plan, 800 families were settled including 400 families carried forward from the previous Plan. Till 1984-85, an expenditure of Rs.166.76 lakhs has been incurred on rehabilitation of 1,200 families. Two hundred families have been carried over to the Seventh Plan. An amount of Rs.25 lakhs was earmarked under the Scheme for the year 1985-86.

The States and Union Territories continue to plan and implement soil and water programmes on the basis of Integrated Watershed Management Plan, particularly to promote better productivity of rainfed areas by conserving and re-using available rainwater.

The Seventh Plan provides that the Soil and Water Conservation Programme should be intensified with a view of checking soil erosion and land degradation as also enhancing the productivity of available land. To support the efforts of the States, two Centrally Sponsored Schemes (detailed earlier) of soil conservation in the catchment areas of River Valley Projects and Integrated Watershed Management in the catchment areas of 8 flood prone rivers in the Indo-Gangetic Basin will be continued during the Seventh Plan period. It has been decided to take up a new scheme for development and stabilisation of various areas of Uttar Pradesh,

Madhya Pradesh, Rajasthan and Gujarat operative from 1986-87.

Dryland Farming

About 70 per cent of the cultivated area at present is under dryland farming. During 1985-86, dryland farming programme received further impetus. As against the target of 8,483 micro-watersheds set for the year, 9,212 micro-watersheds had been taken up (upto December 1985) for development. The States of Karnataka, Maharashtra and Sikkim exceeded their targets for developing watersheds. Efforts were also made to propagate the dryland farming practices in areas outside the watersheds. In respect of such areas, as against a target of 132 lakh hectares fixed for 1985-86, an area of 86 lakh hectares had already been brought under dryland farming practices upto December 1985.

As a multi-disciplinary Project Implementation Committee (PIC) is required to be set up for each of the selected micro-watersheds to monitor progress of implementation at various stages of development, 4,083 Project Implementation Committees (PICs) had been set up so far as against the target of 5,258 PICs during 1985-86. The States had trained 16,639 persons during 1985-86 as against the target of 7,272 persons. The achievements in the major components of watershed development were: the land development work was taken up during the year in an area of 3.77 lakh hectares against the target of 10.70 lakh hectares. About 41,764 water harvesting/storage farm structures had been constructed, against the annual target of 48,684 structures. The target of saturating the area with improved/drought-resistant seeds was fixed at 6.61 lakh hectares against which the achievement has been 6.91 lakh hectares. The coverage under chemical fertilisers during the year was 6.88 lakh hectares against the target of 5.65 lakh hectares. The progress of dryland farming is indicated in Table III-27.

Table III-27: Progress of various aspects of Dryland Farming

Item	Unit	Target	1985-86 Achievement (upto March 1986) ‡
1	2	3	4
1. Land Development	Lakh hectares	10.70	3.77
2. Water harvesting/storage structures	Number	48,684	41,764
3. Area covered with improved seeds	Lakh hectares	6.61	6.91
4. Area covered with chemical fertilisers	Lakh hectares	5.65	6.88
5. Seedling planted under afforestation	Lakh numbers	..	..
6. Area planted under social forestry	Hectares	..	..
7. Number of persons trained	Number	7,272	16,639

‡ Provisional.

Source: Ministry of Agriculture, Government of India.

Under the Central Sector Scheme for Propagation of Water Conservation/Harvesting Technology for Dryland Farming Areas, launched in 1983-84, a sum of Rs.5 crores was allocated for developing about 600-700 hectares in each of the 19 identified districts located in 15 States during the period 1983-84 to 1984-85. The scheme is being financed by the Central Government in the form of 75 per cent as grant-in-aid and 25 per cent as loan. The Scheme was continued during 1985-86 also on the same pattern. In the same identified districts, another Centrally Sponsored Scheme for development of dryland agriculture includ-

ing popularisation of seed-cum-fertiliser drills, growing of improved crop varieties, application of fertilisers, etc., was also under implementation since the last two years of the Sixth Five Year Plan. The cost of the Scheme is shared on 50:50 basis between the Government of India and the State Governments. The State Governments were urged to meet the cost of the incomplete works from out of the unspent balances of the Central Government's releases during 1983-84 and 1984-85 which aggregated to Rs.130 lakhs. The scheme was continued during 1985-86 in the same manner.

A World Bank assisted Pilot Project for Watershed Development in Rainfed areas had been initiated in the States of Karnataka, Andhra Pradesh, Maharashtra and Madhya Pradesh at a cost of Rs.44.23 crores for a period of seven years. In each of these States, a total area of about 25,000 to 30,000 hectares is expected to be brought under comprehensive Watershed Development through improvement of land and water resource base and by super imposition of improved production system.

The Kandi Watershed and Area Development Project, a World Bank assisted project has been in operation in Punjab since 1980. The main objective of the Project is to protect the upper catchment area from ecological degradation through soil conservation measures, provision of a suitable vegetation cover and reafforestation. The number of watersheds covered under the Project increased from five to twelve. The estimated outlay of the project was Rs.51.05 crores for the period 1980-85 and a sum of Rs.25.84 crores had been spent upto 1984-85. The Punjab Government is modifying the project by extending the time limit by 2-3 years to complete the on-going works.

In the Seventh Plan, high priority is envisaged for the development of dryland/rainfed farming with a view to raising productivity and achieving the important objectives of reducing poverty, unemployment and regional disparities. A Centrally Sponsored Scheme on National Watershed Development Programme for Rainfed agriculture with a total Central outlay of Rs.120 crores would be implemented during the Seventh Plan. This scheme is to be implemented in approximately 94 districts of 11 States viz., Andhra Pradesh, Bihar, Gujarat, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu and Uttar Pradesh. During 1986-87, an area of 4.38 lakh hectares is proposed to be covered.

It is proposed to take up a National Dryland/ Rainfed Farming Project as a Centrally Sponsored Scheme in the Seventh Plan to supplement the State efforts. The components of the national programme would include, among others, land development, rain water management, provision for design and development of farm implements and machinery, afforestation and pastures development.

Integrated Rural Development Programme

The objective of Integrated Rural Development Programme (IRDP) — a major poverty alleviation programme in the Sixth Plan, was to provide assistance to 15 million families below the poverty line to enable them to attain an income level above the poverty line. This was to be achieved by providing productive assets and inputs to identified families below the poverty line known as target groups. The target groups are scheduled castes/tribes, agricultural labourers, rural artisans, marginal and small farmers, etc. The capital cost of assets was subsidised to the extent of 25 per cent for small farmers, 33⅓ per cent for marginal farmers, agricultural labourers and rural artisans and 50 per cent to tribal beneficiaries. An individual family receives upto Rs.3,000 by way of subsidy in normal areas and Rs.4,000 in Drought Prone Areas. Tribal beneficiaries receive upto Rs.5,000 by way of subsidy. The programme was financed by a combination of subsidies provided by the Government and loans advanced by the banking institutions. It was also provided that at least 30 per cent of the families assisted should belong to scheduled castes and scheduled tribes.

The programme is being implemented through District Rural Development Agencies. At the State level, a Co-ordination Committee headed by the Chief Secretary monitors the overall aspects of the implementation of the programme. During the Seventh Plan, a two-fold strategy is to be adopted under IRDP. Firstly, progress made during Sixth Plan needs to be consolidated and those who have not been able to cross the poverty line for no fault of theirs, need to be given supplementary assistance. A house to house survey is to be conducted for this purpose. The second part of the strategy would be to take up new beneficiaries. They will be assisted in such a manner that they would be able to cross the poverty line with single dose of assistance.

The Seventh Plan also provides that the identification of families will be on the basis of annual household income of Rs.4,800 (as against Rs.3,500 during Sixth Plan) though the poverty line will be taken as Rs.6,400. The Seventh Five Year Plan envisages a target of assisting 20 million households (including about 10 million of the Sixth Plan beneficiaries with supplemental assistance) under IRDP. The approved outlay in the Central Sector is Rs.1,186.79 crores. Originally, a target of 4 million families was envisaged during 1985-86. However, it was later revised to 2.47 million families. Of this, 1.15 million will be those who are already getting assistance under the programme and 1.32 million will be new beneficiaries. Against this, upto the end of February 1986, 2.08 million families had been assisted. Out of this, 0.88 million constituting 42.3 per cent belonged to SC/ST. Steps are being taken to improve the coverage of women beneficiaries who formed only 5.57 per cent upto end-January 1986. Upto the end of March 1986, the Government of India released Rs.207.09 crores against the Central allocation of Rs.305.93 crores. Upto the end of January 1986, Rs.237.40 crores have been spent under the programme. Term credit mobilised worked out to Rs.368.92 crores. As an innovative administrative measure for improving the efficiency of the programme, a Concurrent Evaluation of IRDP was undertaken in 36 districts every month, since October 1985 by 29 reputed research academic and professional organisations. The State Governments were kept informed of the deficiencies noticed by the Concurrent Evaluation every month to take appropriate remedial steps. For 1986-87, a budget estimate of Rs.287.50 crores has been approved in the Central Sector for the Programme. The targets envisaged are 3.2 million families out of which 2 million would be old and 1.2 million new. The achievements under IRDP are given in (Table III-28).

Table III-28: Progress of Integrated Rural Development Programme

Item	Unit	1981-82	1982-83	1983-84	1984-85	1985-86 (Upto January 1986)
1	2	3	4	5	6	7
1. Central allocation	Rs. crores	153.36	204.48	207.72	207.72	305.93
2. Central releases	"	128.45	176.17	194.23	206.96	207.09*
3. Total expenditure including State's share	"	264.65	359.59	406.09	472.20	237.40
4. Term credit disbursed	"	467.59	713.98	773.51	857.48	368.92
5. Number of families assisted	In lakhs	27.13	34.55	36.85	39.82	17.79
6. Number of SC/ST families assisted	"	10.01	14.06	15.37	17.38	7.50
7. Per capita investment	Rupees	2698.00	3107.00	3201.00	3339.00	..

* Upto end-March 1986.

Source: Ministry of Agriculture, Government of India.

The scheme for Development of Women and Children in Rural Areas (DWCRA) launched in September 1982 is being implemented on a pilot project basis in 50 selected districts in different States as a sub-scheme of IRDP. The scheme is being implemented through the concerned State Government Departments at the State level, District Rural Development Agency at the District level and Block Agency at Block level. All the State Governments, except Meghalaya, have agreed to implement this scheme and have made suitable provision for the scheme in their respective State budgets. For 1985-86, a budget provision of Rs.5.05 crores had been made. Of this, Rs.2.51 crores was to be borne by the Centre and Rs.1.54 crores by UNICEF Also, a provision of Rs.1 crore has been made by the Centre for financing the schemes to be taken up by voluntary organisations. State Governments were also expected to contribute to the extent of Rs.2.50 crores towards their share. As against the annual outlay of Rs.5.05 crores, upto November 1985, an amount of Rs.1.45 crores and Rs.0.05 crores was released as Central and UNICEF shares, respectively.

Drought Prone Areas Programme

The strategy adopted in the Sixth Plan for Drought Prone Areas Programmes will continue during the Seventh Plan which would *inter-alia* include increased stress on activities which can contribute directly to the restoration of the ecological balance through afforestation and soil conservation and increasing the per capita income through optimum development of land, introduction of dry farming technology and development of other national resources including efficient utilisation of scarce water through surface and groundwater exploitation. At the beginning of the Sixth Plan, the programme was in operation in 557 blocks of 74 districts of 13 States. From 1985-86, the programme is being implemented in 90 districts of 13 states.

The allocation originally fixed for the entire programme during the Sixth Plan was Rs.350 crores i.e., Rs.175 crores under the Central Plan and an equal amount under the State Plans. Subsequently, however, based on the annual outlays approved by the Planning Commission, the Sixth Plan allocation was increased to Rs.404.30 crores. The existing pattern of assistance according to which allocations for block are shared by the Centre and the concerned State on 50:50 basis will continue during the Seventh Plan period. A total outlay of Rs.237 crores as Central Share is provided under the Seventh Plan on the basis of Rs.15 lakhs per block per annum on the existing coverage of 615 blocks. During the Sixth Plan, Central assistance amounting to Rs.166.08 crores was released to the States and total expenditure of Rs.337.41 crores was reported by them. For the year 1985-86, a provision of Rs.37 crores was made in the Central Budget for the programme.

Various research and evaluation studies have been sponsored and financed from time to time to bring into focus the positive results as well as the defects in the implementation of the programme. The achievements of this programme are given in Table III-29.

Desert Development Programme

The Desert Development Programme (DDP) was launched in 1977-78 with the objective of controlling desertification and restoration of ecological balance of certain desert and semi-desert areas and creation of conditions for raising the level of production, income and employment of the people of these areas. From 1985-86, the programme was extended to 131 blocks in 21 districts. Earlier the programme covered 126 blocks in 21 districts of which 17 districts were in hot deserts of Rajasthan, Haryana and Gujarat and 4 districts in the cold deserts of Jammu & Kashmir and Himachal Pradesh. During the Sixth Plan, an amount of Rs.41.83 crores was released by the Central Government to the States for implementing the programme. Total expenditure during the Sixth Plan period was Rs.73.56 crores.

For the Seventh Plan period, a total Central sector outlay of Rs.245 crores has been provided. For the year 1985-86, a provision of Rs.8

Table III-29: Achievement of Drought Prone Areas Programme

Item	Unit	Achievement		
		1983-84	1984-85	1985-86‡
1	2	3	4	5
1. Area treated under soil & moisture conservation	'000 hectares	54.47	43.8	78.47
2. Creation of irrigation potential	"	106.85	25.9	42.27
3. Forestry and pasture	"	76.11	43.5	50.28
4. Milk societies established	Number	1586	538	..
5. Sheep societies established	"	32	23	..
6. Number of beneficiaries (families)	in '000	440.50	616.17	656.57
7. Mandays of employment created	In lakhs	173.91	276.17	197.44

‡ Provisional.

Source: Ministry of Agriculture, Government of India.

crores was made in the 1985-86 Central Budget on the assumption that matching contributions would come from the States. To provide greater thrust, the Central Government decided to provide 100 per cent finance to this programme. Therefore, the Central allocation was raised to Rs. 16 crores for 1985-86. The achievements of the programme are given in Table III-30. Greater emphasis will be given to scheme like arresting desertification and the development of desert areas during the Seventh Plan and higher allocation will be made from 1986-87 onwards. The allocation will be on an area basis for hot arid deserts and on lumpsum basis for the cold arid deserts.

Table III-30: Achievement of Desert Development Programme

Item	Unit	1985-86	
		Target	Achievement*
1	2	3	4
1. Soil and moisture conservation	000' Hectares	5.62	5.62
2. Crop husbandry	"	1.04	1.44
3. Forestry and pasture development	"	17.77	18.66
4. Creation of irrigation potential	"	3.03	0.87
5. Calves rams born through A I.	000' Nos.	..	1.96
6. No. of beneficiaries			
a) Total	"	..	34.83
b) Scheduled Castes	"	..	5.20
c) Scheduled Tribes	"	..	1.93
7. Employment generated	000' Mandays	..	662.00

* Provisional

Source: Ministry of Agriculture, Government of India.

National Rural Employment Programme

The National Rural Employment Programme (NREP) has, as its aim, provision of employment opportunities for unemployed/under employed persons in the rural areas and also creation of productive community assets for direct and continuing benefits to the weaker sections of the society and for strengthening the rural economy.

Rural works benefiting individuals are permitted only in the case of SC/ST/bonded labourers, assignees of ceiling surplus lands, bhoodan land, etc. As against the creation of 1,500-2,000 million mandays, 1,775 million mandays were generated during the Sixth Plan period. Employment generated for SC/ST during the Sixth Plan period accounted for about 42 per cent of the total employment generation which indicates that the programme catered to the needs of the weaker sections to a great extent. The Seventh Plan stresses the need for having a sharper focus on programmes aimed at giving self employment and wage employment to the poorer sections of the community. Accordingly, emphasis on rural employment will continue with better planning and closer monitoring for effective implementation.

For the Sixth Plan, an outlay of Rs.980 crores was provided for this Programme by the Central Government, while the State Governments have provided Rs.640 crores. However, a total amount of Rs.1,873 crores (Rs.1,079 crores as Central share and Rs.794 crores as States' share) was actually made available and an amount of Rs.1,834 crores was utilised under the Programme during the Sixth Plan period. A salient feature of the programme is that 10 per cent of the resources are earmarked for works of direct and exclusive benefit to SC/ST and another 20 per cent for social forestry works. These allocations cannot be diverted to the other sectors. For the Seventh Plan period, a total outlay under NREP would be of the order of Rs.2,487.47 crores, comprising Rs.1,250.81 crores from the Central Sector and Rs.1,236.66 crores from the State Sector.

A decline in the foodgrains utilisation was noticed under this programme during the Sixth Plan period, which was ascribed to several factors such as inadequate arrangements for distribution, availability of foodgrains at a lower price in the open market as compared to issue price, preference of workers for coarse grains rather than wheat and rice which was supplied under NREP, etc. Keeping this in view, it was decided to distribute foodgrains at subsidised rates in January 1984 which resulted in marginal increase in foodgrains utilisation during 1984-85.

For 1985-86, an outlay of Rs.230 crores was provided as the Central share which was to be equally matched by the States share. In addition, the State Governments were permitted to utilise the unspent balance of Rs.91.22 crores carried over from the previous year. Against this, Rs.229.75 crores were released so far by the Centre which included 20 per cent earmarked allocations under the Social Forestry Sector. The reported utilisation upto January 1986 was Rs.295.69 crores. A total quantity of 7.30 lakh tonnes of foodgrains was allocated for 1985-86 and a quantity of 9.31 lakh tonnes has been released to the States/Union Territories. A quantity of 6.90 lakh tonnes of additional wheat was released by November/December 1985 to 19 States and one Union Territory.

For 1985-86, an employment target of 228.00 million mandays had been fixed. Reported achievement upto January 1986 was 172.58 million mandays. Out of the total employment generated, the employment for SC/ST and landless category accounted for about 48 per cent and 27 per cent, respectively. The progress of this Programme is indicated in Table III-31.

Rural Landless Employment Guarantee Programme.

Rural Landless Employment Guarantee Programme (RLEGP) is a fully funded programme of the Central Government. During the Sixth Plan, an amount of Rs.500 crores was provided, of which an expenditure of Rs.377.94

Table III-31: Progress of National Rural Employment Programme

Item	Unit	1982-83	1983-84	1984-85	1985-86 (upto Jan.1986)
1	2	3	4	5	6
Foodgrains					
i) Allocation	Lakh tonnes	3.13	3.22	3.09	7.30*
ii) Releases	"	2.48	2.36	3.07	9.31†
iii) Utilisation	"	1.72	1.47	1.70	1.17
Cash					
i) Allocation by the Centre	Rs. crores	190.00	201.65	230.00	230.00
ii) Allocation by the States	"	188.08	199.54	227.53	227.53
iii) Unutilised balance from previous year	"	142.74	145.38	143.94	91.22
iv) Utilisation	"	394.76	392.22	519.14	295.69
Employment Generated	Million Mandays	351.20	302.76	353.12	172.58

* Inclusive of 5.00 lakh tonnes of additional allocation
† Inclusive of 6.90 lakh tonnes of additional releases

Source: Ministry of Agriculture, Government of India.

crores was incurred against a release of Rs.499.97 crores. A total of 260.44 million mandays of employment was generated. An outlay of Rs.1,743.78 crores has been fixed for the Seventh Plan. Employment generation to the extent of 1,013 million mandays is proposed during the Seventh Plan. This will be in addition to the creation of 1,445 million mandays of work during the Seventh Plan under the National Rural Employment Programme (NREP).

Criteria for allocation of funds to the State Governments have been changed. Equal weightage will now be given to both incidence of poverty as well as the number of agricultural labourers/marginal farmers/workers, as it was felt that greater weightage to the latter had led to the more agriculturally advanced areas getting the benefit. A shelf of project is required to be prepared by State/Union Territory Governments for the works to be implemented under the Programme and priority to be given to the works needed to be taken up in backward areas having a predominant population of unemployed landless labourers, particularly by SCs/STs, and also works in areas which are low wage pockets and works benefiting women. For the Sixth Plan, the Central Committee had approved 320 projects costing Rs.906.59 crores. Among the approved projects, link road predominate. However, minor irrigation, drainage, field channels, social forestry, school buildings and SC/ST housing were also approved. During the Seventh Plan, 49 projects with an estimated cost of Rs.170.04 crores have been approved upto December 1985.

Since the stress in the Seventh Plan is on the generation of productive employment, projects are to be planned in such a manner so as to ensure optimal mix of different sectoral activities leading to maximisation of employment and benefit to the rural community through the creation of productive and durable assets. During the Seventh Plan, 20 per cent of the funds will be earmarked for Social Forestry, while 10 per cent of the funds will be allocated to the works that directly benefit SCs/STs. The progress of this Programme is given in Table III-32.

Pulses

As production of pulses is one of the items in the New-20 Point Programme, considerable ground work has already been done for achieving a breakthrough in pulses production. Accordingly, the strategy for the Seventh Plan envisages a package of measures to remove the constraints such as high risk, low profitability, inadequate irrigation facilities, etc., responsible for slow growth in pulses production. To supplement the efforts of the State Govern-

Table III-32: Progress of Rural Landless Employment Guarantee Programme

Item	Unit	1983-84	1984-85	1985-86 †
1	2	3	4	5
Foodgrains				
i) Allocation	Lakh tonnes	—	3.22	2.10
ii) Releases	"	0.66	3.20	2.08
iii) Utilisation	"	0.01	1.08	0.65
Cash				
i) Allocation	Rs. crores	100.00	500.00	388.00
ii) Releases	"	100.00	393.99	317.65
iii) Utilisation	"	6.21	317.73	228.81
Employment Generation				
i) Target	Million mandays	60.00	300.00	205.73
ii) Achievement	"	5.20	252.98	134.38
iii) Realisation	Percent	8.66	84.33	65.32

† Provisional

Source: Ministry of Agriculture, Government of India.

ments in achieving a breakthrough in pulses production, a new Centrally Sponsored Scheme 'National Pulses Development Programme' will be launched during the Seventh Plan to achieve the production target of 15 to 16 million tonnes by the end of the Seventh Plan. An annual compound growth rate of 2.90-4.25 per cent has been envisaged for pulses production in the Seventh Plan. The strategy to achieve this growth is as follows:

1) Introduction of pulse crops in irrigated farming system;
2) Bringing of additional area under short duration varieties of urad, moong, etc., in rice fallows by utilising the residual moisture in *rabi* season;
3) Inter-cropping of *arhar* in soyabean, bajra, cotton, sugarcane and groundnut both under irrigated and unirrigated conditions;
4) Encouraging the cultivation of pulses to replace khesari dal;
5) Multiplication and use of improved seeds;
6) Adoption of plant protection measures;
7) Use of phosphatic fertilisers and rhizobium culture;
8) Improved post-harvest technology and
9) Adoption of appropriate public policies including pricing and marketing of pulses.

The following are some of the special measures taken by the Government for increasing pulses output in the country:

1) A Centrally Sponsored Pulses Development Scheme which is in operation since 1972-73 aims at popularisation of management practices for increasing the production level and to bring additional areas under pulses. During 1985-86, this scheme provided financial assistance to the farmers for demonstrating the improved technology, certified seeds at reasonable prices and assistance for adoption of plant protection measures on chemicals/equipment and operational charges. In addition, assistance was also given to the State Governments and Agricultural Universities for production of breeder foundation seeds so as to make them available in sufficient quantity for the production of certified seeds of pulses.

2) The programme of cultivation of moong in summer season after harvest of *rabi* crops under assured irrigation was launched in 1981. It has gained popularity in the States of Uttar Pradesh, Bihar, Rajasthan, Orissa, Punjab, Haryana, Madhya Pradesh, Gujarat, Maharashtra, West Bengal, Tamil Nadu, Andhra Pradesh, Karnataka and Assam The area and production of summer moong increased from 7.7 lakh hectares

and 2.4 lakh tonnes, respectively, during 1981 to 11.60 lakh hectares and 3.71 lakh tonnes in 1984. An area of 13.41 lakh hectares is estimated to have been brought under summer moong in 1985. For 1986, a target of 17.99 lakh hectares was fixed.

3) Under the Central Sector Minikit Demonstration Scheme for pulses (in operation since 1981-82), the distribution of minikits of pulses free of cost to the farmers was undertaken with a view to popularising the improved varieties and for the larger coverage of area under improved seeds. A target of 4 lakh minikits for 1985-86 was fixed as against the actual distribution of 5.20 lakh minikits during 1984-85.

Seventh Plan — Agricultural Production Target

Foodgrains

The Planning Commission has set foodgrains production targets for the terminal year (1989-90) of the Seventh Plan at 178-183 million tonnes, which on the assumed base level of foodgrains production of 150 million tonnes in 1984-85, would show annual compound growth rate of 3.48-4.06 per cent per annum. The actual growth rate achieved during the Sixth Plan period was 2.73 per cent per annum. The table below shows the targets, expected growth rate in the Seventh Plan and actual growth rate achieved during the Sixth Plan for foodgrains and other crops (Table III-33).

Table III-33: Seventh Plan Targets for Crop Production.

Crop	Unit	Assumed Base Level (1984-85)	Seventh Plan		Sixth Plan
			Target (1989-90)	Compound Growth Rate Col. 4 over Col. 3 (% per annum)	Compound Growth Rate (1980-81 to 1984-85)
1	2	3	4	5	6
Rice	Million tonnes	60.00	73.00– 75.00	4.00–4.56	2.73
Wheat	"	45.00	56.00– 57.00	4.47–4.84	4.41
Coarse Cereals	"	32.00	34.00– 35.00	1.22–1.81	1.19
Pulses	"	13.00	15.00– 16.00	2.90–4.25	1.00
Total Foodgrains	"	150.00	178.00–183.00	3.48–4.06	2.72
Total Oilseeds (Nine major)	"	13.00	18.00	6.72	5.13
Sugarcane	"	180.00	217.00	3.81	–0.26
Cotton	Million bales of 170 kgs.	7.50	9.50	4.84	2.91
Jute & Mesta	Million bales of 180 kgs.	7.50	9.50	4.84	1.14

Cotton

To achieve the targeted production during 1985-86, the following strategy was adopted.

i) Acceleration in the spread of improved technology in both the irrigated and rainfed areas, with special stress on the use of pure seeds, optimum agro-nomic practices and integrated pest management, inter-cropping in rainfed areas and bringing in more areas in rice fallows.

ii) Expansion of irrigated areas under cotton by exploiting the potential under the command of major and minor irrigation projects to the fullest possible extent.

iii) Maximisation of the areas under the high yielding hybrid cotton both in irrigated and rainfed areas.

This strategy is an integral part of the Centrally Sponsored Scheme for Intensive Cotton Development Programme (ICDP) and was implemented during 1985-86 in all the major cotton growing States. The total area covered (including irrigated and non-traditional areas) under ICDP during 1985-86 season, was placed at 24.97 lakh hectares (roughly 36.6 per cent of the total estimated area of 68.20 lakh hectares under cotton in the country). During 1985-86, an area of 17.21 lakh hectares in these States was brought under improved varieties and 24.86 lakh hectares under fertilisers. In over 1.73 lakh hectares, aerial spraying was done. However, this was 0.27 lakh hectares short of the target viz., 2.00 lakh hectares. Subschemes viz., ground spraying/dusting on cotton and hybrid seed production were discontinued by the Government from 1985-86. Some of the States, in addition to ICDP have been implementing their own schemes of cotton development to increase cotton production in their own States.

Raw Jute and Mesta

The raw jute and mesta production target for 1985-86 was fixed at 86.0 lakh bales; the 1984-85 target was 85.0 lakh bales (Table III-34). To achieve the target, the Union Government supplemented the efforts of the State Governments through the implementation of the Centrally Sponsored Scheme of Intensive Jute Development Programme (IJDP). The area covered under the Programme was 6.05 lakh hectares accounting for 50.8 per cent of the total jute and mesta area of the country in 31 selected jute/mesta districts spread over eight States namely, West Bengal, Orissa, Bihar, Assam, Uttar Pradesh, Meghalaya, Tripura and Andhra Pradesh. The target was fully achieved in all the States. About 22,280 quintals of improved certified jute seeds were distributed through the National Seeds Corporations, Maharashtra State Seeds Corporation and Departmental Seed producing agencies which covered cent per cent of the area programmed. The coverages of both jute and mesta under developmental inputs were 81 thousand hectares, under row cropping — 284 thousand hectares under nitrogenous soil fertilisers — 63 thousand hectares under foliar spraying of Urea — 66 thousand hectares, under plant protection. Besides this, 141 thousand hectares of jute area was brought under irrigation as against 124 thousand hectares in 1984-85.

Provision for subsidies on improved jute and mesta seeds, seed-drills and wheel hoes pesticides, construction of individual retting tanks and demonstration etc., were made under the IJDP. For the implementation of the programme, the Government made a budget provision of Rs.186.34 lakhs which was to be shared on 50:50 basis between the Centre and the States. In addition to monitoring the Centrally Sponsored Scheme on IJDP, the Directorate of Jute Development continued to be in liaison between the Centre and States in respect of project formulation, input supply, transfer of technology and removal of constraints on production as well as marketing.

The production target of raw jute and mesta for 1986-87 has been fixed at 85 lakh bales as against the Seventh Plan target of 95 lakh bales. The compound growth rate of raw jute and mesta production envisaged for the Seventh Plan is 4.84 per cent.

Table III-34: Production of Raw Jute & Mesta

(In lakh bales of 180 kgs. each)

Year	Target	Production
1981-82	84.0	83.7
1982-83	83.5	71.7
1983-84	83.5	77.2
1984-85	85.0	79.8
1985-86	86.0	126.0

Source: Ministry of Agriculture.

A Centrally Sponsored Scheme on Jute/Mesta/Sunhemp Development Programme in modified form incorporating the new approach will be implemented from the second year of

the Seventh Plan for boosting raw jute production. Following are the main strategies that would be followed in the modified programme from 1986-87 onwards:

a) Ensuring timely availability of critical inputs and implements in adequate quantities;
b) Providing technical knowhow through a well managed extension service under the new system of agricultural extension service at the grass-root level;
c) Co-ordinating the existing level of services namely, adoptive research, inputs, credit, training, etc. in general and in the selected districts in particular;
d) Taking care of the location specific problems such as correcting the acid soil and increasing efficiency of fertiliser use in such areas;
e) Organising large size block demonstrations for rapid dissemination of the latest research results;
f) Creating additional retting facilities for improvement of fibre quality and strengthening the existing/newly proposed fungal culture laboratories of ICAR/Agricultural Universities/National Research Development Corporation (NRDC) to ensure large scale supply of fungal culture packets for improving quality of fibre at post retting stage; and
g) Organising farmers' training programme on jute grading at village level in order to educate the farmers in jute grading and helping them to receive better returns from better quality fibre.

Oilseeds

National Oilseeds Development Project

The oilseeds production has stagnated around 10-13 million tonnes during the past four years which is inadequate to meet the country's needs necessitating imports involving a large drain on the country's foreign exchange reserves. Therefore, to achieve a breakthrough in oilseeds production and to attain the target of 180 lakh tonnes fixed for the terminal year of the Seventh Plan, the National Oilseeds Development Project (NODP) has to play a dominant role in the years to come. As much as 46 lakh tonnes or 92 per cent of the incremental oilseeds output in the Seventh Plan is expected to come from NODP. The Project initiated in 1984-85 was formulated by reorienting and integrating the then existing Centrally Sponsored Schemes and two Special Projects on groundnut and soyabean. Crop and location specific approach was extended under the new project to groundnut, soyabean, rapeseed/mustard and sunflower in the potential areas of 12 States. In addition to groundnut, rapeseed/mustard, soyabean and sunflower intensive approach was extended to sesamum, sunflower and niger in 14 States. In 1984-85, the project aimed at development of oilseeds in 110.5 lakh hectares in more than 210 districts of 17 States. However, the actual area covered under the Project was more — 139.1 lakh hectares. A record production of 131 lakh tonnes attained in 1984-85 was due mainly to the efforts made under the NODP in collaboration with State Governments.

The NODP had envisaged a seed minikit distribution target of 5.56 lakhs during 1985-86. This was crossed by end-September 1985 as about 8.60 lakhs kits were already distributed by then. An amount of Rs.30 crores has been sanctioned to the States to carry out the development programme under the Project.

The pattern of funding the NODP project has undergone a change. Out of the total allocations of Rs.100 crores during the Seventh Plan, Rs.30 crores had been spent in the first year i.e. 1985-86. The balance of Rs.70 crores may prove inadequate to meet the need of the targeted area of 14.6 lakh hectares during the Seventh Plan and hence the matching contribution is envisaged from the States that would take the total funds to Rs.140 crores. This amount would be spread equally over the remaining years of Seventh Plan. For the year 1986-87, a financial outlay of Rs.26.85 crores has been fixed of which Rs.14.33 crores will be funded by the Central Government and the

balance of Rs.12.52 crores would be shared by the State Government.

The NODP operations were continued during 1985-86. A total area of over 122.7 lakh hectares was covered during that year comprising 80.8 lakh hectares under the Special Project Component and 41.9 lakh hectares under the Intensive Oilseeds Development Programme. The programme covered castorseed and linseed cultivations also in 1985-86.

The strategy adopted to achieve the production target of 136 lakh tonnes during 1985-86 included among others (i) Expansion of non-traditional crops like soyabean and sunflower in potential areas, (ii) Increase in irrigated area of crops like groundnut during rabi and summer seasons and rapeseed/mustard during rabi season, (iii) Improvement of productivity of oilseeds crops through the use of quality seeds of improved varieties, better farm implements, plant protection measures and adoption of improved package of practices, (iv) Free distribution of seed minikits on a large scale to popularise newly released varieties, (v) Extension of area/cultivation under oilseeds through double cropping, inter-cropping etc. and (vi) Protection against fall in prices through price support operations.

Further, the following incentives and facilities were provided under the project. (i) Larger allocation of funds for seed production and subsidised distribution of quality seeds and plant protection chemicals and equipments, (ii) Subsidised distribution of fertilisers and sprinkler sets in addition to irrigation subsidy for groundnut in areas covered by special projects, (iii) Subsidised distribution of improved farm implements, (iv) Increased assistance for organising field demonstrations for improved package of practices, (v) Strengthening of organisational set up for implementation and monitoring of the project, (vi) Free distribution of seed and fertiliser minikits and (vii) Marketing support to ensure fair price to farmers for their produce. In order to achieve the 1986-87 target of 148 lakh tonnes the basic strategy under NODP would remain unchanged. However, State Governments would be provided maximum flexibility in respect of selection of components, preparation of district plans taking into account specific local conditions and constraints. The main role of the Central Government would be to provide additional support to State Governments for helping them to achieve the production targets laid down for the year.

Red oil palm plantations are being raised in Quilon district of Kerala by Oil Palm India Ltd., which is a joint venture of Government of India and Kerala State. So far, an area of 3,705 hectares has been planted. In the Seventh Plan Rs.8 crores have been allocated for red oil palm development as against Rs.1.32 crores in the Sixth Plan.

A National Oilseeds and Vegetable Oils Development Board was established in March 1984, to bring about the development of vegetable oil industry and oilseeds in an integrated manner. The Board is vested with the responsibility of evolving long-term strategy covering all aspects of production, processing, marketing, prices, etc. to accelerate production of oilseeds and vegetable oils.

National Dairy Development Board's Programme

To promote oilseeds production on an integrated basis, the National Dairy Development Board (NDDB) implements the project Restructuring Edible Oils and Oilseeds Production and Marketing' in 7 States namely Gujarat, Andhra Pradesh, Karnataka, Tamil Nadu, Maharashtra, Madhya Pradesh and Orissa.

Production, procurement, processing and marketing of oilseeds and vegetable oils are undertaken in co-ordination with oilseed growers co-operative societies at the village level and the oilseed growers' federation at the State level (Table III-35).

The project is financed through the sale proceeds of edible oils received as gift from the Co-operative League of the USA (CLUSA)

and the Co-operative Union of Canada (CUC). The sale proceeds till March 31, 1986 amounted to Rs.183.05 crores of which an amount of Rs.153.78 crores was utilised/released for the co-operative project purpose.

Table III-35: Progress of National Dairy Development Board Project

(Upto end-March 1986)

State	No. of Oilseed Growers' Co-operative Societies at the village level		No. of villages covered		No. of farmer members		Members oilseeds area		Procurement of oilseeds (in tonnes)	
	1984-85	1985-86	1984-85	1985-86	1984-85	1985-86	1984-85	1985-86	1984-85	1985-86
1. Gujarat	1,097	1,132	1,623	1,706	1,09,629	1,18,810	3,27,155	3,46,810	96,556	12,645
2. Maharashtra	77	111	522	742	16,672	24,774	27,777	41,139	1,598	3,737
3. Madhya Pradesh	481	560	4,658	5,372	56,480	72,451	1,62,879	2,64,144	71,529	1,31,872
4. Andra Pradesh	132	188	586	811	17,104	25,740	41,169	68,325	16,088	3,657
5. Karnataka	33	65	105	351	1,650	6,787	1,650	8,144	403	1,005
6. Tamil Nadu	164	212	619	937	13,913	21,865	31,562	43,754	6,511	3,990
7. Orissa	120	166	883	1,450	10,564	15,199	11,355	16,163	7,030	941
Total	**2,104**	**2,434**	**8,996**	**11,369**	**2,26,012**	**2,85,626**	**6,03,547**	**7,88,479**	**1,99,715**	**1,57,847**

Technology Mission on Oilseeds Production

To meet the increasing domestic demand for edible oils as well as to keep edible oil prices under check, the country has been resorting to imports of edible oils. This results in a huge drain on foreign exchange reserves. With a view to reducing the foreign exchange outgo on this account the Government initiated a new scheme called "Technology Mission on Oilseeds Production" in the month of April 1986, with the Department of Agriculture and Co-operation, Ministry of Agriculture to act as the Apex Body for the Mission. It will mobilise and co-ordinate with the different State Departments of agriculture and other Central, State and Private agencies and the National Oilseeds and Vegetable Oil Development Board in organising distribution of minikits, transfer of technology, supply of inputs, seed multiplication and formulation of suitable price policies. It will also monitor and co-ordinate all activities of the mission at the national level.

The Mission will concentrate first on the major crops such as groundnut, rapeseed/mustard, soyabean, sunflower, safflower, linseed, sesamum and niger. The Mission will give encouragement to non-edible oilseed crops to meet the requirements of the industry. The current phase of the Mission will be four years beginning April 1986 and ending March 1990. The Mission while working for achieving the target of the Seventh Plan will also lay the foundation for achievement of the target fixed for 2001. The target fixed is 18 million tonnes of oilseeds in 1989-90 and 24-26 million tonnes by 2001.

The main objective of the Mission relates to self-sufficiency in edible and non-edible oils and reduction in imports of edible oils which is sought to be attained through an integrated approach in involving improvement in the operations of different developmental, scientific, input, banking and marketing agencies. The Department of Agricultural and Co-operation and the National Oilseeds and Vegetable Oil Development Board have identified 180 districts which contribute maximum to the oilseeds output for special thrust.

The Mission will:

i) aim at increasing production and productivity of the different oilseed crops in 180

districts through assured input supply and technology packages.

ii) develop location specific technologies for each of the crops for maximising production.

iii) produce adequate quantities of breeder's seeds, foundation seed and certified seed of different oilseeds crops.

iv) take up mass multiplication of tissue culture plants of oilpalm and coconut.

v) modernise cryo-preservation of important germplasms of oilseed crops and also develop facilities for importing superior oil-yielding plants from outside.

vi) organise seed gardens to produce superior quality varietal and hybrid varieties of oilpalm and coconut.

vii) create an awareness about the improved and emerging technologies in selected blocks through National Demonstrations, Operational Research Projects, Krishi Vigyan Kendras and Lab-to-Land Programmes.

viii) assist the development workers by training and imparting latest technologies,

ix) help modernise the processing technology to increase the output and improve the quality of oil.

The Indian Council of Agricultural Research will be responsible for the development of new varieties and hybrids, plant production and protection technologies through it's institutes and all-India co-ordinated projects; the training of subject matter specialists of the States, the production of breeder's seed and the supervision over quality of foundation seeds. It will transfer technology through the Krishi Vigyan Kendras, Operational Research Projects, National Demonstrations and Lab-to-Land Programmes to educate and train extension workers and farmers. Department of Civil Supplies, Ministry of Food and Civil Supplies will advise on different aspects related to the processing of oilseeds and blending of oils. Advice on the type of oilseeds and by-products of different oilseed crops for export promotion and import substitutions will be provided to the Mission by the Ministry of Commerce. Advice on technological aspects of oilseeds, oils and cakes will be provided by the Council of Scientific and Industrial Research. National Bank for Agriculture and Rural Development will help in providing adequate rural credit for the programme. National Agricultural Co-operative Marketing Federation of India alongwith other procurement agencies will offer market support and ensure remunerative prices to the growers. National Seeds Corporation will not only undertake production and co-ordination of foundation and certified seeds but will also produce breeder seed on its farms and popularise superior varieties and hybrids among farmers. State Farms Corporation of India will administer large farms spread all over the country. National Bio-technology Board will help development of tissue culture technologies. National Dairy Development Board will set up Co-operatives of oilseed-growers and develop seed processing capabilities and organise seed production and transfer of technology in the Co-operative sector.

National Oilseeds and Vegetable Oil Development Board will guide the States in the preparation and implementation of action plans through participation, fund releases, field supervision, monitoring and periodical reviews. Coconut Board will cater to the needs of coconut cultivation on a greater scale. Oilpalm Corporation of India and Forest Corporation of Andaman and Nicobar islands will promote the cultivation of oilpalm, develop appropriate inter cropping systems, popularise protection and production practices, evaluate new germplasm and produce hybrid seed materials.

State Departments of Agriculture will be co-ordinating, directing and implementing agencies at the state levels for all the activities directed towards oilseeds production.

Chapter IV

Industrial Production

Trends in Industrial Production During 1985-86

Overall Trends

The overall rate of growth in the economy projected for the Seventh Plan period envisages a significant acceleration in the growth of industry and infrastructure. Accordingly, sector-wise targets of growth have been fixed. While the generation of electricity is expected to increase at a compound annual rate of 12.1 per cent, the annual average growth in the mining sector is placed at 13 per cent. On the basis of improvement in these two sectors, the output in the manufacturing sector is expected to increase at an annual average rate of 8 per cent. With this aim in view, the Government announced a number of measures liberalising the industrial policy and streamlining investment procedures to remove constraints on production, increase capacity utilisation and productivity, reduce costs by obtaining economies of scale and improve the quality of product. The growth in industrial production during 1985-86 has to be viewed in the background of the development strategy and the industrial policy outlined for the Seventh Plan.

The average monthly index of industrial production (Base 1970=100) as compiled by the Central Statistical Organisation (CSO), according to the re-adjusted weights at 209.8 recorded a further growth of 6.3 per cent during 1985-86 (April-March), the first year of the Seventh Plan (Table IV-1), which was slightly lower than that of 6.8 per cent achieved during 1984-85, the last year of the Sixth Plan and much below the postulated average annual growth rate of 8 per cent for the Seventh Plan. It is pertinent to note in this connection that in addition to the shortcomings in the compilation of the present index series referred to in the Report for the year 1983-84, the CSO was repeating past production data for a number of items in the absence of availability of current data. CSO has, therefore, excluded 137 such items having a weight of 11.69 per cent in the general index from the manufacturing sector and has redistributed the weights of these items within the relevant groups from June 1985.

The trends in the general index during the first half (April-September) and the second half (October-March) were according to the usual pattern of recording lower growth in the first

Table IV-1 : Trends in Industrial Production — Group-wise (Based on CSO's Index (1970=100) of Industrial Production)

Group	Weight	Increase (+) Decrease (−) over the previous year (per cent) April-March	
		1984-85(P)	1985-86(P)
1	2	3	4
General Index (Crude)	**100.00**	**+ 6.8**	**+ 6.3**
1. Mining and Quarrying	9.69	+ 8.1	+ 4.6
2. Manufacturing	81.08	+ 5.7	+ 6.1
3. Electricity	9.23	+12.0	+ 8.6
A. Use-based Classification			
1. Basic Industries	33.23	+ 9.5	+ 7.2
2. Capital Goods Industries	14.98	+ 2.6	+ 3.5
3. Intermediate Goods Industries	21.33	+ 9.5	+10.2
4. Consumer Goods Industries	30.46	+ 3.2	+ 3.8
(a) Durables	3.81	+19.1	+14.4
(b) Non-durables	26.65	+ 0.4	+ 1.6
B. Input-based Classification			
1. Agro-based Industries	33.99	+ 4.3	+ 2.9
2. Metal-based Industries	13.20	+ 4.9	+ 5.4
3. Chemical-based Industries	22.39	+ 6.6	+ 6.6
C. Sectoral Indicators			
1. Transport Equipment and Allied Industries	10.81	+ 5.6	+10.2
2. Electricity and Allied Industries	14.58	+ 9.6	+ 7.9
3. Energy Output †	18.53	+10.0	+ 2.2

P : Provisional.

† : Consists of coal and lignite, petroleum crude and products and electricity.

Note : Presentation of data in this table is based on the indices obtained on adjusted weights.

half and higher growth in the second half observed over a period of years, except during last year. Accordingly, the index during the first half of 1985-86 recorded a lower growth of 5.6 per cent compared with 7.7 per cent during the same period of last year and a higher growth of 6.9 per cent during the second half of 1985-86 compared with 5.9 per cent during the second half of 1984-85.

All the three sectors comprising the general index recorded further increases in their output during the year. Despite the lower growth rates by the 'mining and quarrying' and 'electricity' sectors, the 'manufacturing' sector has shown an improvement from 5.7 per cent in 1984-85 to 6.1 per cent during 1985-86. The deceleration in the rate of growth from 8.1 per cent in 1984-85 to 4.6 per cent in 1985-86 in the case of 'mining and quarrying' sector was due to smaller increases in the output of coal (excluding lignite) and petroleum crude during the year. Though the thermal and nuclear power generation recorded substantial increases during 1985-86, there was a decline in the generation of hydro power which brought down the overall rate of growth in electricity generation from 12.0 per cent in 1984-85 to 8.6 per cent during 1985-86.

The trends in the general index analysed on a quarterly basis show that the rates of growth during the first two quarters, April-June and July-September, were lower at 5.8 per cent and 5.3 per cent as against 6.9 per cent and 8.6 per cent, respectively, during the corresponding quarters of the preceding year. During the third and fourth quarters, however, the growth rates improved to 7.2 per cent and 6.6 per cent from 5.2 per cent and 6.4 per cent, respectively, a year ago.

Higher growth rate was recorded by 'mining and quarrying' sector during the third quarter and by 'electricity' sector during the fourth quarter. The growth rates recorded by these two sectors during the remaining quarters were lower than the growth rates achieved during the corresponding quarters of the previous year. In the case of 'manufacturing' sector, the growth rates recorded in all the quarters of 1985-86 barring the second quarter were higher than the growth rates during the corresponding quarters of the preceding year.

The combined weight of industries recording positive growth increased from 74.93 per cent in 1984-85 to 76.78 in 1985-86 (Table IV-2). However, the combined weight of industries recording growth of over 10 per cent declined considerably to 19.38 per cent from 30.97 per cent in the preceding year. Among these, industries with a combined weight of 8.24 per cent recorded growth rates over 10 per cent during both the years. With the consequential fall in the combined weight of industries recording declines in their output, the combined weight of industries recording declines in their output over 10 per cent also came down from 6.47 per cent in 1984-85 to 5.24 per cent in 1985-86.

In respect of the 132 selected industries from the manufacturing sector accounting for a weight of 48.12 per cent (adjusted weight) in the general index of industrial production for which data are compiled by the Directorate General of Technical Development (DGTD), targets of production set for the year 1985-86 were available in respect of 69 industries with a combined weight of 25.58 per cent. Among these, while 31 industries with a combined weight of 11.84 per cent exceeded their targets, 25 industries with a combined weight of 11.14 per cent fulfilled their targets by more than 80 per cent. Production levels achieved in the case of 13 industries with a weight of 2.60 per cent were less than 80 per cent of the targets.

The composite index of six infrastructure industries, viz., electricity, coal (excluding lignite), petroleum crude, petroleum refinery products, saleable steel and cement accounting for a weight of 24.25 per cent (adjusted weight) in the general index of industrial production recorded an overall growth rate of 8.2 per cent on top of an increase of 9.9 per cent recorded during the previous year. Out of these six industries, only two industries, viz., petroleum refinery products and saleable steel showed a higher increase in their output of 20.1 per cent and 11.1 per cent during 1985-86 as against 1.1 per cent and 9.4 per cent, respectively, during 1984-85. The output in the other four industries recorded further increases though at lower rates than those of last year.

The overall revenue earning traffic carried by the railways during the year 1985-86 at 258.14 million tonnes recorded an increase of 9.2 per cent as against an increase of 2.7 per cent in the preceding year. The tonnage moved by the railways in respect of major industrial raw materials and finished products at 169.6 million tonnes increased by 7.7 per cent as against 3.6 per cent in 1984-85. Among these, movement of coal recorded the highest increase of 10.7 per cent as against an increase of only 2.9 per cent in the preceding year.

Industry Group-wise Analysis

The group-wise trends in industrial production during the last two financial years are presented in Table IV – 1.

The overall industrial production registered a lower growth of 6.3 per cent in 1985-86 compared with a growth rate of 6.8 per cent in the previous year as a result of sharp deceleration

Table IV-2 : Classification of Industries by their Growth Rates

Range of Growth Rates	In terms of weight in General Index of Industrial Production (Base 1970=100) (April-March)	
	1984-85(P)	1985-86(P)
1	2	3
A. Increase		
1. Moderate : Upto 5%	14.38	31.94
2. Marked : Above 5%	60.55	44.84
of which:		
Above 10%	30.97	19.38
3. Total Weight (1+2)	74.93	76.78
B. Decline		
1. Moderate : Upto 5%	15.24	14.65
2. Marked : Above 5%	9.83	8.57
of which:		
Above 10%	6.47	5.24
3. Total Weight (1+2)	25.07	23.22
Total (A + B)	**100.00**	**100.00**

P : Provisional.

Note : Presentation of data in this table is based on the indices obtained on adjusted weights.

in the rate of growth of the 'mining and quarrying' and 'electricity' sectors.

The use-based classification of industrial production data shows that the lower growth rate of industrial production in 1985-86 was mainly due to the fall in the contribution of basic industries group which accounted for 47 per cent (56 per cent last year) in the overall growth of industrial production. Contribution of other groups viz., capital goods, intermediate goods and consumer goods industries, on the other hand, increased from 7 per cent, 25 per cent and 12 per cent in 1984-85 to 9 per cent, 29 per cent and 15 per cent, respectively, during the year 1985-86.

The basic industries group accounting for a weight of 33.23 per cent in the general index registered a growth rate of 7.2 per cent during 1985-86 as compared with 9.5 per cent in the previous year. Only a few industries in this group registered higher growth rates in 1985-86 over the previous year. These were: saleable steel (11.1 per cent in 1985-86 compared with 9.4 per cent in 1984-85), pig iron (8.6 per cent compared with 1.4 per cent) and soda ash (4.6 per cent compared with 4.1 per cent). On the other hand, the undernoted industries recorded lower growth rates than the previous year's growth rates which are indicated in the brackets viz., crude oil, 4.1 per cent (11.4 per cent), coal excluding lignite, 4.7 per cent (6.7 per cent), nitrogenous fertilisers, 10.5 per cent (12.2 per cent), phosphatic fertilisers, 12.1 per cent (20.6 per cent), electricity, 8.6 per cent (12.0 per cent), cement, 9.7 per cent (11.5 per cent) and caustic soda, 4.5 per cent (7.7 per

cent). Some of the major industries in this group registered declines in output. These were: aluminium (decline of 9.0 per cent in 1985-86 in contrast to a rise of 25.7 per cent in 1984-85) and copper-virgin metal (a fall of 11.3 per cent as against a rise of 14.7 per cent).

The growth rate of consumer goods industries, the second largest group (weight 30.46 per cent), registered a moderate rise from 3.2 per cent in 1984-85 to 3.8 per cent in 1985-86. Under this group, consumer durables (weight 3.81 per cent), recorded a lower growth of 14.4 per cent compared with 19.1 per cent in 1984-85, while consumer non-durables (weight 26.65 per cent), registered a higher growth of 1.6 per cent as compared with a nominal growth of 0.4 per cent in the previous year.

During 1985-86, within the sub-group of consumer durables, the output of the undernoted industries recorded higher growth rates over the previous year's growth (as indicated in brackets) viz., electric fans, 8.1 per cent (3.1 per cent), motor cycles, 39.4 per cent (13.4 per cent), scooters, 48.6 per cent (14.9 per cent) and three wheelers, 17.9 per cent (13.3 per cent). Industries which recorded lower growth rates during the year comprised: typewriters, 4.9 per cent (9.5 per cent), cars, 18.1 per cent (58.5 per cent) and hurricane lanterns, 1.1 per cent (4.6 per cent). On the other hand, output declined further in 1985-86 in respect of radio receivers (a fall of 3.2 per cent over and above the fall of 6.7 per cent in 1984-85) and sewing machines (a fall of 12.1 per cent over the fall of 1.0 per cent).

In the sub-group of consumer non-durables, industries which improved their performance during 1985-86 were: tea (a rise of 5.7 per cent compared with 1.7 per cent in 1984-85), sugar (a rise of 9.9 per cent as against a fall of 14.3 per cent), penicillin (a rise of 3.3 per cent as against a fall of 30.4 per cent), rubber footwear (a rise of 8.8 per cent as againt a fall of 2.9 per cent), leather footwear (a rise of 2.7 per cent as against a fall of 0.5 per cent) and razor blades (a rise of 7.3 per cent as against a fall of 2.8 per cent). Industries which recorded a lower growth in 1985-86 comprised: paper and paper boards, 10.2 per cent (10.3 per cent), synthetic detergents, 14.9 per cent (18.3 per cent) and fluorescent tubes, 5.4 per cent (14.8 per cent). On the other hand, some industries registered decline in their output in 1985-86. These comprised: cigarettes, a decline of 11.0 per cent (against a rise of 7.6 per cent in 1984-85), vanaspati, a fall of 7.3 per cent (against a rise of 5.3 per cent), soaps, a fall of 2.4 per cent (against a rise of 4.1 per cent), electric lamps, a fall of 2.1 per cent (against a rise of 0.5 per cent) and baby food, a decline of 4.4 per cent (against a rise of 19.7 per cent). The industries which registered further decline in their output in 1985-86 were: cloth (a decline of 1.6 per cent over and above 1.6 per cent in 1984-85), streptomycin (a decline of 21.4 per cent over and above 2.5 per cent) and sulpha drugs (a fall of 3.3 per cent on top of a fall of 17.0 per cent).

The intermediate industries group (weight 21.33 per cent) registered a higher growth rate of 10.2 per cent in 1985-86 compared with 9.5 per cent in the previous year. Among the industries which contributed to this improvement, mention may be made of petroleum refinery products (a rise of 20.1 per cent in 1985-86 compared with a rise of 1.1 per cent in 1984-85), all yarn (a rise of 5.0 per cent as against 4.6 per cent), newsprint (a rise of 19.9 per cent as against 14.2 per cent), nylon filament yarn (a rise of 19.3 per cent as against 8.5 per cent), bicycle tyres (a rise of 16.2 per cent in contrast to a fall of 4.6 per cent), bolts, nuts and rivets (a rise of 11.8 per cent in contrast to a fall of 8.9 per cent) and storage batteries (a rise of 11.6 per cent in contrast to a fall of 0.6 per cent). The undernoted industries, however, registered lower growth rates over the previous year's growth. Auto tyres, 7.7 per cent (12.9 per cent), paints and varnishes, 7.0 per cent (13.2 per cent), grinding wheels, 10.4 per cent (19.6 per cent) and dry cells, 3.5 per cent (11.1 per cent). Industries which registered decline in their output in 1985-86 were: jute textiles (a fall of 1.3 per cent in contrast to a rise of 25.8 per cent in 1984-85) and viscose tyre cord (a fall of 5.3 per cent over and above the fall of 20.8 per cent in 1984-85).

The capital goods industries group (weight 14.98 per cent) recorded a higher growth rate of 3.5 per cent in 1985-86 as compared with 2.6 per cent in 1984-85. In this group, industries which registered higher growth rates comprised: railway wagons (a rise of 0.8 per cent in contrast to a fall of 25.1 per cent in 1984-85), railway locomotives and coaches (a rise of 3.6 per cent in contrast to a fall of 4.9 per cent), electric motors (a rise of 6.3 per cent in contrast to a fall of 7.8 per cent), boilers (a rise of 25.2 per cent compared with a rise of 1.6 per cent) and jeeps (a rise of 13.9 per cent compared with a rise of 8.6 per cent). Industries which recorded lower growth rates were: commercial vehicles (a rise of 6.4 per cent in 1985-86 compared with a rise of 9.5 per cent in 1984-85), diesel engines (8.0 per cent compared with 9.1 per cent), power transformers (7.3 per cent compared with 9.7 per cent) and domestic refrigerators (11.5 per cent compared with 19.1 per cent). On the other hand, some industries registered decline in their output in 1985-86 in contrast to an increase in the output in 1984-85. These were: forged handtools (a fall of 29.7 per cent in contrast to a rise of 6.5 per cent in 1984-85), machine tools (a fall of 3.8 per cent in contrast a rise of 12.3 per cent), tractors (a fall of 10.0 per cent in contrast to a rise of 12.0 per cent) and winding wires (a fall of 3.6 per cent in contrast to a rise of 9.4 per cent).

The analysis of production data according to input-based classification reveals that the output of metal-based industries (weight 22.39 per cent) in 1985-86 increased at a higher rate of 5.4 per cent compared with an increase of 4.9 per cent in 1984-85 mainly due to higher growth rates registered by basic metal industries, electrical machinery, transport equipment and metal products except machinery and transport equipment groups. In the case of chemical-based industries (weight 13.20 per cent), the growth rate of 6.6 per cent achieved in 1984-85 was sustained in 1985-86 on account of significant increase in the output of petroleum refinery products. In the case of agro-based industries (weight 32.99 per cent),on the other hand, the rate of growth decelerated from 4.3 per cent in 1984-85 to 2.9 per cent in 1985-86. The fall in the rate of growth could be attributed to the lower growth rates recorded by the manufacture of textiles, paper and paper boards, rubber and rubber products and decline in the output of tobacco manufactures.

Capacity Utilisation

Table IV-3 presents available data on capacity utilisation for the three years 1983-84 to 1985-86 in respect of 55 industries with a combined weight of 61.66 per cent in general index of industrial production. It may be observed from the table that in 1985-86, while capacity utilisation improved in 28 out of the 55 industries, that in 27 industries declined.

Basic Industries

The capacity utilisation of many industries in this group was lower during 1985-86 as compared with that in 1984-85. Some of these industries were: aluminium-virgin metal (69.4 per cent during 1985-86 as compared with 76.3 per cent during 1984-85), copper-virgin metal (75.0 per cent as compared with 84.8 per cent), soda ash (94.3 per cent as compared with 97.7 per cent) and lead (41.5 per cent as compared with 47.3 per cent). The main reason for lower capacity utilisation for most of these industries was inadequate availability of power.

Though the capacity utilisation in soda ash industry decelerated to 94.3 per cent from 97.7 per cent in 1984-85, it continued to record highest utilisation of capacity in this group. The industries which improved their capacity utilisation during the year included: saleable steel (from 78.3 per cent in 1984-85 to 87.0 per cent in 1985-86), ingot steel (from 71.8 per cent to 78.4 per cent), steel castings (from 49.8 per cent to 53.4 per cent) and cement (from 77.6 per cent to 78.7 per cent).

The improved capacity utilisation in steel industry could be attributed to introduction of new techniques in respect of production and management and good demand. Capacity utilisation in cement industry improved due to better availability of power from the captive

Table IV-3 : Production, Installed Capacity and Capacity Utilisation Ratios of Selected Industries*

Industry	Weight	Accounting Unit	April-March 1983-84 Production	1983-84 Installed Capacity	1983-84 Ratio (%)	1984-85 Production	1984-85 Installed Capacity	1984-85 Ratio (%)	1985-86 Production	1985-86 Installed Capacity	1985-86 Ratio (%)
1	2	3	4	5	6	7	8	9	10	11	12
I. Basic Industries	**18.83**										
1. Cement	2.01	Million Tonnes	27.1	35.7	75.8	30.2	38.9	77.6	33.1	42.1	78.7
2. Steel Castings	0.63	'000 Tonnes	87.4	175.8	49.7	86.7	174.0	49.8	93.0	174.0	53.4
3. Saleable Steel (Main Plants)	3.98	Lakh Tonnes	64.0	88.3	72.5	70.0	89.4	78.3	77.8	89.4	87.0
4. Ingot Steel•	0.02	-do-	79.3	114.8	69.1	83.0	115.6	71.8	90.6	115.6	78.4
5. Aluminium (Virgin Metal)	0.62	'000 Tonnes	219.9	362.4	60.7	276.5	362.4	76.3	251.5	362.4	69.4
6. Copper (Virgin Metal)	0.01	-do-	29.2	39.6	73.7	33.5	39.6	84.6	29.7	39.6	75.0
7. Zinc	—	-do-	60.3	92.4	65.3	57.6	94.8	60.8	73.0	97.4	74.9
8. Caustic Soda	0.50	-do-	646.2	857.4	75.4	695.6	900.0	77.3	727.4	900.0	80.8
9. Soda Ash	0.36	-do-	780.3	760.8	102.6	811.7	831.0	97.7	849.4	900.9	94.3
10. Nitrogenous Fertilisers (N content)	0.92	Lakh Tonnes	34.9	51.4	67.9	39.2	51.4	76.3	43.3	55.1	78.6
11. Phosphatic Fertilisers (P_2O_5)	0.55	-do-	10.5	14.2	73.9	12.6	15.6	80.8	14.2	17.1	83.0
12. Lead	—	'000 Tonnes	15.4	24.0	64.2	14.2	30.0	47.3	17.1	41.2	41.5
13. Electricity	9.23	Bill. KWH	139.9	321.1	43.6	156.6	355.3	44.1	170.0	390.3	43.6
II. Capital Goods Industries	**7.90**										
1. Commercial Vehicles (Buses & Trucks)	2.21	'000 Nos.	88.4	103.0	85.8	96.8	115.8	83.6	103.0	161.8	63.7
2. Railway Wagons (In Terms of 4 Wheelers)	1.24	-do-	17.4	28.8	60.4	13.0	31.1	41.8	13.1	31.1	42.1
3. Road Rollers	0.09	Nos.	449	1500	29.9	443	1500	29.5	750	1500	50.0
4. Agricultural Tractors	0.34	'000 Nos.	75.8	90.0	84.2	84.9	90.0	94.3	76.4	90.5	84.4
5. Power Transformers	1.50	Million KVA	23.1	32.3	71.5	25.4	34.6	73.4	27.2	34.6	78.6
6. Electrical Motors	0.35	Million HP	5.4	6.8	79.4	4.9	7.0	70.0	5.2	7.2	72.2
7. Machine Tools	0.55	Rs. Crores	269.7	290.0	93.0	302.8	313.0	96.7	291.4	363.2	80.2
8. Sugar Machinery	0.19	-do-	50.1	66.2	75.7	43.8	74.8	58.6	42.6	74.8	57.0
9. Ball and Roller Bearings	0.48	Lakh Nos.	407.7	475.2	85.8	454.9	495.0	91.9	579.4	585.0	99.0
10. Cement Machinery	0.21	Rs. Crores	43.6	68.5	63.6	58.2	74.6	78.0	96.2	80.7	119.2
11. Diesel Engines (Stationary Type)	0.74	'000 Nos.	156.1	296.4	52.7	170.3	295.2	57.7	183.9	297.2	61.9

(Contd.)

Table IV-3 : Production, Installed Capacity and Capacity Utilisation Ratios of Selected Industries *(Contd.)*

Industry	Weight	Accounting Unit	April-March 1983-84 Production	1983-84 Installed Capacity	1983-84 Ratio (%)	1984-85 Production	1984-85 Installed Capacity	1984-85 Ratio (%)	1985-86 Production	1985-86 Installed Capacity	1985-86 Ratio (%)
1	2	3	4	5	6	7	8	9	10	11	12
III. Intermediate Goods Industries	**16.35**										
1. Tyres — Automobiles	1.48	Lakh Nos.	101.5	114.5	88.6	114.6	125.5	91.3	123.4	149.8	82.4
2. Tyres — Cycles	0.23	-do-	326.8	336.5	97.1	311.8	372.0	83.8	362.2	407.0	89.0
3. Petroleum Products	1.64	Million Tonnes	33.1	37.8	87.6	33.5	37.8	88.6	40.3	41.7	96.6
4. Viscose Staple Fibre	—	'000 Tonnes	82.2	110.2	74.6	100.4	96.9	103.6	90.4	98.1	92.2
5. Polyester Fibre	0.15	-do-	27.4	34.6	79.2	39.7	38.2	103.9	43.0	41.9	102.6
6. Nylon Filament Yarn	0.49	-do-	30.5	28.2	108.2	33.1	29.1	113.7	39.5	30.0	131.7
7. Storage Batteries	0.22	Lakh Nos.	20.0	26.6	75.2	19.9	26.8	74.3	22.2	29.8	74.5
8. Dry Cells (Excluding graphite electrodes and anodes)	0.32	Million Nos.	1,033.6	1,564.0	66.1	1,148.3	1,625.0	70.7	1,188.6	1,895.0	62.7
9. Paints and Varnishes	0.31	Million Kgs.	114.0	146.2	78.0	128.9	142.0	90.8	138.5	167.5	82.7
10. Coprolactum	—	'000 Tonnes	15.9	20.0	79.5	16.3	20.0	81.5	19.1	20.0	95.5
11. Welding Electrodes	0.84	MRM	683.0	739.2	92.4	685.8	826.8	82.9	691.8	931.0	74.3
12. Cotton Spinning‡	7.44	—	—	—	68.4	—	—	69.1	—	—	72.7
13. Newsprint	0.02	'000 Tonnes	175.9	222.5	79.1	201.2	222.5	90.4	240.7	247.5	97.3
14. Jute Manufactures	3.21	Lakh Tonnes	10.9	15.4	70.8	13.7	15.6	87.8	13.5	15.8	85.4
IV. Consumer Goods Industries	**18.58**										
(a) Durables	2.41										
1. Passenger Cars	0.87	'000 Nos.	46.8	53.0	88.3	74.2	66.2	112.1	87.6	116.9	74.9
2. Electric Fans	0.25	Lakh Nos.	46.7	46.3	100.9	48.1	45.1	106.7	52.0	45.1	115.3
3. Bicycles	0.50	-do-	59.0	69.5	84.9	58.9	71.2	82.7	55.5	72.4	76.7
4. Typewriters	0.16	'000 Nos.	105.8	146.4	72.3	115.8	149.9	77.3	121.5	153.4	79.2
5. Domestic Refrigerators	0.28	-do-	483.3	562.8	85.9	575.8	556.4	103.5	642.3	550.0	116.8
6. Sewing Machines	0.06	-do-	334.8	472.8	70.8	331.4	472.8	70.1	291.4	472.8	61.6
7. Scooters, Motor Cycles and Mopeds	0.29	-do-	778.9	705.0	110.5	918.0	962.4	95.4	1,232.8	1,311.0	94.0

(Contd.)

Table IV-3 : Production, Installed Capacity and Capacity Utilisation Ratios of Selected Industries *(Concld.)*

Industry	Weight	Accounting Unit	April-March								
			1983-84			1984-85			1985-86		
			Production	Installed Capacity	Ratio (%)	Production	Installed Capacity	Ratio (%)	Production	Installed Capacity	Ratio (%)
1	2	3	4	5	6	7	8	9	10	11	12
(b) Non-durables	16.17										
1. Vanaspati	0.68	'000 Tonnes	889.2	1,415.0	62.8	935.9	1,415.0	66.1	867.8	1,508.6	57.5
2. Synthetic Detergents (Organised Sector)	0.01	-do-	142.5	277.6	51.3	167.5	278.0	60.3	193.2	280.5	68.9
3. Sugar	2.83	Lakh Tonnes	72.0	69.1	104.2	61.5	73.9	83.2	67.6	73.9	91.5
4. Leather Footwear (Organised Sector)	0.34	Lakh Pairs	142.7	208.2	68.5	142.0	215.2	66.0	145.8	221.1	65.9
5. Rubber Footwear	0.53	-do-	368.2	537.6	68.5	357.6	526.8	67.9	389.0	526.8	73.8
6. Cloth Weaving‡ (Mill Sector)	6.34	—	—	—	64.3	—	—	62.9	—	—	61.9
7. Paper and Paper Boards (Excluding Newsprint)	2.24	'000 Tonnes	1,248.1	1,915.0	65.2	1,376.1	2,042.5	67.4	1,516.9	2,290.0	66.2
8. Electric Lamps (Incandescent Filament excluding fluorescent)	0.29	Million Nos.	275.1	278.5	98.8	276.6	278.5	99.3	270.7	278.5	97.2
9. Cigarettes	2.23	Bill Pcs.	80.5	115.2	69.9	86.6	126.0	68.7	77.0	132.8	58.0
10. Soap	0.68	'000 Tonnes	361.8	292.2	123.8	376.9	338.6	111.3	367.7	346.1	106.0
Total Weight	**61.66**										

* Provisional.

‡ Indicates the ratio of spindles/looms worked to spindles/looms installed.

Note: Data on installed capacity relates to the average of installed capacity at the beginning and at the end of the relevant financial year.

Sources: Directorate General of Technical Development (DGTD), various Ministries and Organisations.

power plants installed by many big cement units.

Capital Goods Industries

In general, the decline in capacity utilisation in some of the capital goods industries was due to persistent demand constraints. Commercial vehicles (buses and trucks), agricultural tractors, machine tools and sugar machinery in this group, showed a decline in capacity utilisation ratios during 1985-86 as compared with that in 1984-85. In the case of the commercial vehicles (buses and trucks), capacity utilisation ratio declined from 83.6 per cent in 1984-85 to 63.7 per cent in 1985-86. This could be attributed partly to mis-match between production and sales and partly to larger movement of freight traffic by railways. Slackness of demand has also affected machine tools and machinery industries as a result of lower orders from user industries. The industries which showed increases in capacity utilisation ratios during 1985-86 were: road rollers (capacity utilisation at 29.5 per cent in 1984-85 increased to 50.0 per cent in 1985-86), power transformers (73.4 per cent to 78.6 per cent), ball and roller bearings (91.9 per cent to 99.0 per cent), cement machinery (78.0 per cent to 119.2 per cent) and diesel engines-stationary type (57.7 per cent to 61.9 per cent).

Intermediate Goods Industries

Capacity utilisation in the case of petroleum products, nylon filament yarn, caprolactum and newsprint recorded increases from 88.6 per cent during 1984-85 to 96.6 per cent during 1985-86, from 113.7 per cent to 131.7 per cent, from 81.5 per cent to 95.5 per cent and from 90.4 per cent to 97.3 per cent, respectively. The higher capacity utilisation in respect of these industries was the result of near-monopoly positions of the units producing these products thereby ensuring adequate demand for their products. In this group, industries which utilised their capacities at lower level during the year than last year included: tyres – automobiles (82.4 per cent during 1985-86 as compared with 91.3 per cent last year), viscose staple fibre (92.2 per cent as compared with 103.6 per cent), dry cells – excluding graphite electrodes and anodes (62.7 per cent as compared with 70.7 per cent), paints and varnishes (82.7 per cent as compared with 90.8 per cent), welding electrodes (74.3 per cent as compared with 82.9 per cent) and jute manufactures (85.4 per cent as compared with 87.8 per cent). The lower capacity utilisation in the tyre (automobiles) industry could be ascribed to high cost of raw materials and high build-up of capacity in relation to demand; in jute manufactures to slackness in demand, both domestic and overseas, following stiff competition from the synthetic substitutes as also obsolete machinery, and in viscose staple fibre to unrestricted imports affecting domestic production.

Consumer Goods Industries

The consumer goods industries group as a whole witnessed sluggish growth during 1985-86. Demand recession faced by some of the consumer durable goods industries viz., bicycles, sewing machine, etc., during 1985-86 led to lower utilisation of capacity as compared with that in the preceding year. In the case of passenger cars, the lower utilisation of capacity may be ascribed to huge build-up of capacity particularly by existing companies either through expansion or by entering into collaboration agreements. The following industries in this sub-group, viz., domestic refrigerators, electric fans and typewriters showed higher capacity utilisation. The electric fan industry achieved over 100 per cent capacity utilisation for the third year in succession. Under consumer non-durable sub-group, industries such as synthetic detergents (organised sector), sugar and rubber footwear recorded increase in capacity utilisation over the preceding year. In this sub-group, industries to suffer in capacity utilisation were: vanaspati, cloth weaving (mill sector), paper and paper boards (excluding newsprint), electric lamps (incandescent filament excluding fluorescent), cigarettes and soaps. In the case of paper and paper boards (excluding newsprint), capacity utilisation ratio dropped to 66.2 per cent during the year from 67.4 per cent last year due to raw material

shortages and infrastructural bottlenecks. The lower capacity utilisation in cloth weaving (mill sector) could be attributed partly to raw material shortages and partly to transfer of entire production of janata cloth to handloom sector and growing sickness. Frequency distribution of 55 industries according to their capacity utilisation ratios is given in Table IV-4. It may be observed from this table that of these, only 24 industries recorded more than 80 per cent capacity utilisation in 1985-86 as compared to 26 in 1984-85.

Small-Scale Sector

During 1985-86 (April-March) the small-scale sector continued to maintain the tempo of growth. The number of small-scale units increased from 12.42 lakhs in 1984-85 to 13.59 lakhs in 1985-86. The production of goods and services in this sector estimated at Rs.38,050 crores (at 1979-80 prices) was higher by 11.7 per cent as compared to that in the previous year (Table IV-5). The level of employment increased by 6.7 per cent from about 90 lakh persons in 1984-85 to 96 lakh persons in 1985-86. With the estimated investment of about Rs.8,380 crores in 1984-85, the SSI sector contributed around 50 per cent of the total industrial production in the country.

Total estimated value of exports from the SSI sector at Rs.2,580 crores in 1984-85 registered a rise of 16.3 per cent over that of Rs.2,219 crores in 1983-84. However, in the last two years exports in SSI sector registered lower growth rates as compared to that in total exports and their share in total exports also came down marginally in 1984-85. Still with a share of 22.4 per cent in total exports in 1984-85, the SSI sector continues to maintain an important place in the exports of our country. An important feature of exports from SSI sector was that about 91 per cent of its exports were of non-traditional items. During 1984-85, sports goods, processed tobacco, snuff and bidi and lac continued to be exported exclusively by SSI sector. Over 92 per cent of exports of marine products, 90 per cent of ready-made garments, 84 per cent of woollen garments and knitwears, 81 per cent of cashew kernel and cashewnut shell liquid, 80 per cent of semi-finished leather and about 61 per cent of finished leather and leather products were accounted for by this sector.

In order to encourage exports from SSI sector Government continued to accord high priority and provided financial support and other assistance to the exporters under various schemes.

Considering the utility of SSI units as against the large/medium industries in terms of their widely dispersed entrepreneurial base, relatively low capital investment, high employment intensity and their wide dispersal over urban, semi-urban and rural areas, Central and State Governments continued to involve in various schemes and promotional efforts apart from providing active assistance to entrepreneurs via several agencies in setting up of small units. The support policies/programmes of Government for SSI sector included: (i) reservation of items for exclusive production and purchase, (ii) priority in the disbursement of loans by financial institutions, (iii) concessions in the import of raw materials and machinery and supply of these materials through SSI corporations and other agencies and (iv) direct assistance like consultancy, marketing, training, technical guidance, etc., through a wide network of promotional bodies, viz., Small Industries Development Organisation (SIDO) at Apex level, Small Industries Service Institutes (SISIs), the District Industries Centres (DICs), the Central Institute of Tool Design (CITD), Institute for Design of Electrical Measuring Instruments (IDEMI), the National Institute for Entrepreneurship and Small Business Development, (NIESBD). Major steps taken by Central Government for augmenting production of SSI sector during 1985-86 included (i) finalisation of a draft legislation for small-scale industries and sending the same to State Governments for examination, (ii) decision to accord permission for conversion of letters of intent into industrial licences only in cases where areas of ancillarisation programme have been worked out to the satisfaction of Government.

Table IV-4 : Frequency Distribution of Capacity Utilisation Ratios of Selected Industries

Range of Capacity Utilisation Ratios in 1985-86	Industry	Capacity Utilisation Ratios (%) April-March			Percentage Variation	
		1985-86(P)	1984-85(P)	1983-84(P)	1985-86 over 1984-85	1984-85 over 1983-84
1	2	3	4	5	6	7
	A. Basic Industries					
Above 80	1. Soda Ash	94.3	97.7	102.6	−3.5	−4.8
	2. Saleable Steel	87.0	78.3	72.5	+11.1	+8.0
	3. Phosphatic Fertilisers(P_2O_5)	83.0	80.8	73.9	+2.7	+9.3
	4. Caustic Soda	80.8	77.3	75.4	+4.5	+2.5
Between 70 and 80	5. Cement	78.7	77.6	75.8	+1.4	+2.4
	6. Nitrogenous Fertilisers (N Content)	78.6	76.3	67.9	+3.0	+12.4
	7. Ingot Steel	78.4	71.8	69.1	+9.2	+3.9
	8. Copper (Virgin Metal)	75.0	84.6	73.7	−11.3	+14.8
	9. Zinc	74.9	60.8	65.3	+23.2	−6.9
Between 60 and 70	10. Aluminium (Virgin Metal)	69.4	76.3	60.7	−9.0	+25.7
Below 60	11. Steel Castings	53.4	49.8	49.7	+7.2	+0.2
	12. Electricity	43.6	44.1	43.6	−1.1	+1.1
	13. Lead	41.5	47.3	64.2	−12.3	−26.3
	B. Capital Goods Industries					
Above 80	1. Cement Machinery	119.2	78.0	63.6	+52.8	+22.6
	2. Ball and Roller Bearings	99.0	91.9	85.8	+7.7	+7.1
	3. Agricultural Tractors	84.4	94.3	84.2	−10.5	+12.0
	4. Machine Tools	80.2	96.7	93.0	−17.1	+4.0
Between 70 and 80	5. Power Transformers	78.6	73.4	71.5	+7.1	+2.7
	6. Electrical Motors	72.2	70.0	79.4	+3.1	−11.8
Between 60 and 70	7. Commercial Vehicles (Buses & Trucks)	63.7	83.6	85.8	−23.8	−2.6
	8. Diesel Engines (Stationary Type)	61.9	57.7	52.7	+7.3	+9.5
Below 60	9. Sugar Machinery	57.0	58.6	75.7	−2.7	−22.6
	10. Road Rollers	50.0	29.5	29.9	+69.5	−1.3
	11. Railway Wagons (In terms of 4 wheelers)	42.1	41.8	60.4	+0.7	−30.8
	C. Intermediate Goods Industries					
Above 80	1. Nylon Filament Yarn	131.7	113.7	108.2	+15.8	+5.1
	2. Polyester Fibre	102.6	103.9	79.2	−1.3	+31.2
	3. Newsprint	97.3	90.4	79.1	+7.6	+14.3
	4. Petroleum Products	96.6	88.6	87.6	+9.0	+1.1
	5. Caprolactum	95.5	81.5	79.5	+17.2	+2.5
	6. Viscose Staple Fibre	92.2	103.6	74.6	−11.0	+38.9
	7. Tyres – Cycles	89.0	83.8	97.1	+6.2	−13.7
	8. Jute Manufactures	85.4	87.8	70.8	−2.7	+24.0
	9. Paints and Varnishes	82.7	90.8	78.0	−8.9	+16.4
	10. Tyres – Automobiles	82.4	91.3	88.6	−9.7	+3.0
Between 70 and 80	11. Storage Batteries	74.5	74.3	75.2	+0.3	−1.2
	12. Welding Electrodes	74.3	82.9	92.4	−10.4	−10.3
	13. Cotton spinning	72.7	69.1	68.4	+ 5.2	+1.0
Between 60 and 70	14. Dry Cells (Excluding graphite electrodes and anodes)	62.7	70.7	66.1	−11.3	+7.0

(Contd.)

Table IV-4 : Frequency Distribution of Capacity Utilisation Ratios of Selected Industries *(Concld.)*

Range of Capacity Utilisation Ratios in 1985-86	Industry	Capacity Utilisation Ratios(%) April-March			Percentage Variation	
		1985-86(P)	1984-85(P)	1983-84(P)	1985-86 over 1984-85	1984-85 over 1983-84
1	2	3	4	5	6	7
	D. Consumer Goods Industries					
(a) Durables						
Above 80	1. Domestic Refrigerators	116.8	103.5	85.9	+12.9	+20.5
	2. Electric Fans	115.3	106.7	100.9	+ 8.1	+ 5.7
	3. Scooters, Motor cycles and Mopeds	94.0	95.4	110.5	−1.5	−13.7
Between 70 and 80	4. Typewriters	79.2	77.3	72.3	+ 2.5	+ 6.9
	5. Bicycles	76.7	82.7	84.9	−7.3	−2.6
	6. Passenger Cars	74.9	112.1	88.3	−33.2	+27.0
Between 60 and 70	7. Sewing Machines	61.6	70.1	70.8	−12.1	−1.0
(b) Non-durables						
Above 80	1. Soap	106.2	111.3	123.8	−4.6	−10.1
	2. Electric Lamps (incandescent filament excluding fluorescent)	97.2	99.3	98.8	−2.1	+0.5
	3. Sugar	91.5	83.2	104.2	+10.0	−20.2
Between 70 and 80	4. Rubber Footwear	73.8	67.9	68.5	+8.7	−0.9
Between 60 and 70	5. Synthetic Detergents (organised sector)	68.9	60.3	51.3	+14.3	+17.5
	6. Paper and Paper Boards (Excluding Newsprint)	66.2	67.4	65.2	−1.8	+3.4
	7. Leather Footwear (organised sector)	65.9	66.0	68.5	−0.2	−3.6
	8. Cloth weaving (Mill Sector)	61.9	62.9	64.3	−1.6	−2.2
Below 60	9. Cigarettes	58.0	68.7	69.9	−15.6	−1.7
	10. Vanaspati	57.5	66.1	62.8	−13.0	+5.3

P : Provisional.

Table IV-5 : Small-Scale Sector

Item	April-March			
	1982-83	1983-84	1984-85(P)	1985-86(P)
1	2	3	4	5
Number of Units (Lakh Nos.)	10.59	11.58	12.42	13.59
Production (Rupees Crores at 1979-80 Prices)	27,700	30,415	34,065	38,050
Exports (Rupees Crores)	2,097	2,219	2,580	N.A.
Employment (Lakh Persons)	79	84	90	96

P : Provisional.
N.A. : Not available
Source : Office of the Development Commissioner, Small-Scale Industries, Ministry of Industry.

(iii) organising workshops on quality improvement for better marketing by Regional Testing Centres and by few SISI's, (iv) review of the list of the restricted items for SSI sector and exclusion of certain items from it with a view to introducing the concept of some competition in the sector to produce quality products at reasonable prices and (v) continuation of various fiscal and financial incentives.

In many areas the small-scale sector has modernised successfully and the quality of its products compares well with those produced in the large-scale sector. The programme of modernisation of selected small-scale industries is being implemented in respect of 20 industries on an all-India basis and 38 industries selected on the basis of concentration in different States. Under the modernisation programme, 31 units were registered till December 1985 and in-plant studies were completed in respect of 28 units. The preparation of an all-India Status report on 9 items and modernisation guides in respect of 4 items are in progress. A number of measures have been taken to encourage upgradation of technology and standards in small-scale production. The Technology Upgradation Committee under the Chairmanship of Dr.S.M. Patel, submitted its report during the year. A Modernisation Review Committee has also been constituted by SIDO. In the 1986-87 Budget, Government announced its decision to set up a fund in the IDBI with a view to providing a focal point for coordinating financial assistance to the SSI sector at the apex level.

A reference was made in the last year's Report to a High Powered Committee set up under the Chairmanship of Professor A.M. Khusro for looking into the problems of availability of credit to small-scale and village industries, etc. The Committee's Report submitted during the year is under consideration of the Government. Further, Reserve Bank of India has recently appointed a Standing Advisory Committee under the Chairmanship of Dr. P.D. Ojha, Deputy Governor, to review the flow of institutional credit to SSI sector and other related matters and to suggest measures for improving the performance of the credit delivery system for securing increased assistance to the sector.

The small-scale sector has been playing a significant role in the development of electronics industry in the country. In the field of consumer electronics, the small-scale sector contributed to the extent of 70 per cent of total production. The major growth during 1985-86 took place in the production of colour TV Sets. The other areas of major contribution have been mini computer/micro processor based system, electronic instruments including micro-processor based instruments where the contribution in total production ranged between 55 to 60 per cent. The phenomenal growth of the computer industry in the small-scale sector is the result of implementation of various measures like concessional rates of import duty on capital goods and raw materials/components, import of latest technology, etc.

District Industries Centres

The District Industries Centres (DICs) Programme started in 1978-79 continued to make an impact on the development of village and small industries in the country. In 1984-85, there were 397 DICs covering 410 out of the total 415 districts in the country (except the four metropolitan cities of Bombay, Calcutta, Delhi and Madras). As per the progress reports received from 396 DICs, 3.77 lakh new industrial units (comprising 2.86 lakh artisan based units and 0.91 small-scale units) were established during 1984-85. These units generated additional employment opportunities for 11.48 lakh persons during the year (Table IV-6).

During 1985-86, about 3.79 lakh new industrial units (comprising 2.79 lakh artisan based units and 1.00 lakh small-scale units) are expected to have been established with a capacity for generation of employment of the order of about 10.95 lakh persons. Credit assistance provided by banks and financial institutions amounted to Rs.611.31 crores during 1984-85 as compared with that of Rs.610.39 crores in 1983-84.

Table IV-6 : Performance of District Industries Centres

Item	Total Achievements (April-March)			Per DIC Achievements (April-March)	
	1983-84	1984-85	1985-86†	1983-84	1984-85
1	2	3	4	5	6
1. No. of DICs sanctioned	397	397	N.A.	—	—
2. No. of DICs reporting	396	396	N.A.	—	—
3. New Registration done (Nos.)	3,00,969	3,42,298	N.A.	760	864
4. New units established (Nos.)					
(i) Artisans	2,74,000	2,85,838	2,79,000	692	722
(ii) SSI	75,300	91,551	1,00,000	190	231
Total	3,49,300	3,77,389	3,79,000	882	953
5. Sick units assisted (Nos.)	1,440	1,178	N.A.	4	3
6. Credit assistance provided by financial institutions (Rupees in crores)	610.39	611.31	N.A.	1.54	1.54
7. Additional employment generated (No. of persons)	11,15,133	11,48,258	10,95,000	2,816	2,900
8. Units given technical and other assistance (Nos.)	42,733	50,621	N.A.	108	128

† Expected achievements.

N.A. Not available.

Source: Office of the Development Commissioner, Small Scale Industries, Department of Industrial Development, Ministry of Industry, Government of India.

A Central Scheme for providing Self-employment to educated unemployed youth with a target of 2.5 lakh beneficiaries per year was introduced in 1983 and the DICs are entrusted with the responsibility of servicing this scheme under the overall guidance of State Governments. During 1984-85, banks sanctioned Rs.429.53 crores to 2.29 lakh educated unemployed youth as compared to Rs.401.54 crores to 2.42 lakh cases last year. The DICs could thus achieve 97 per cent and 92 per cent of the targets in 1983-84 and 1984-85, respectively. These achievements were inspite of constraints of incomplete manning of DICs with proper qualified staff, inadequate delegation of powers, etc. The DICs have, by and large, fulfilled their role by providing packages of guidance and assistance to entrepreneurs.

Industrial Sickness

The latest data on industrial sickness available upto end-June 1985 indicate that there was a further rise in the number of sick industrial units as well as in total bank credit outstanding against them. The number of large industrial units availing of bank credit limit of Rs.1 crore and above and identified as sick by banks increased from 513 as at end-June 1984 to 597 as at end-June 1985 (Table IV-7). The bank credit outstanding against them during this period increased to Rs.2,655.39 crores from Rs.2,112.44 crores.

Industry-wise, incidence of sickness continued to be high in the case of Textiles followed by 'Engineering and Electricals'. The

Table IV-7 : Sick Industrial Units and Outstanding Bank Credit

(Rupees crores)

Industry	End-June 1983		End-June 1984		End-June 1985	
	No. of Units	Amount of Outstanding Bank Credit	No. of Units	Amount of Outstanding Bank Credit	No. of Units	Amount of Outstanding Bank Credit
1	2	3	4	5	6	7
1. Engineering & Electricals	101	365.74 (19.1)	121	437.14 (20.7)	153	629.31 (23.7)
2. Iron and Steel	38	142.45 (7.5)	35	160.29 (7.6)	39	196.48 (7.4)
3. Textiles	119	579.83 (30.3)	140	697.87 (33.0)	162	962.39 (36.2)
4. Chemicals	27	209.24 (10.9)	29	157.35 (7.5)	34	113.67 (4.3)
5. Sugar	44	180.11 (9.4)	43	164.16 (7.8)	46	148.16 (5.6)
6. Jute	37	120.53 (6.3)	36	120.45 (5.7)	44	151.65 (5.7)
7. Rubber	16	108.33 (5.7)	16	123.16 (5.8)	16	126.14 (4.7)
8. Cement	3	9.23 (0.5)	2	9.08 (0.4)	3	9.45 (0.4)
9. Miscellaneous	78	197.64 (10.3)	91	242.94 (11.5)	100	318.14 (12.0)
Total	**463**	**1,913.10 (100.0)**	**513**	**2,112.44 (100.0)**	**597**	**2,655.39 (100.0)**

Note: Figures in brackets are percentages to total.

number of sick units in the Textiles industry increased from 140 to 162 and the outstanding credit against them rose from Rs.697.87 crores (33.0 per cent of total outstanding bank credit for sick units) as at end-June 1984 to Rs.962.39 crores (36.2 per cent of total outstanding bank credit) as at end-June 1985. The number of sick units in the Engineering and Electricals industry increased from 121 to 153 and the bank credit outstanding against them rose from Rs.437.14 crores as at end-June 1984 (20.7 per cent of total outstanding bank credit) to Rs.629.31 crores (23.7 per cent of total outstanding bank credit) as at end-June 1985. Statewise, Maharashtra, West Bengal, Uttar Pradesh, Gujarat, Tamil Nadu, Karnataka and Andhra Pradesh together accounted for 489 sick units involving an outstanding bank credit of Rs.2,257.63 crores (85.1 per cent of total outstanding bank credit) at end-June 1985 as against 420 sick units with an outstanding bank credit of Rs.1,792.31 crores (84.8 per cent of total outstanding bank credit) at end-June 1984 (Table IV-7A).

In the small-scale sector, incidence of sickness has been high. The number of identified sick industrial units in this sector at the end of June 1985 stood at 97,890 (Provisional) as against 81,647 a year ago. Bank credit outstanding against these units rose from Rs.788.30 crores at end-June 1984 to Rs.954.65 crores at end-June 1985. Out of 97,890 sick small-scale industrial units, 6,505 units (with outstandings of Rs.236.84 crores) were considered by banks as potentially viable and 79,378 units (with outstandings of Rs.623.08 crores) as non-viable. The viability of remain-

Table IV-7A : State-wise Classification of Sick Industrial Units and Outstanding Bank Credit

(Rupees crores)

State/Union Territories	End-June 1983		End-June 1984		End-June 1985	
	No. of Units	Amount of Outstanding Bank Credit	No. of Units	Amount of Outstanding Bank Credit	No. of Units	Amount of Outstanding Bank Credit
1	2	3	4	5	6	7
1. Andhra Pradesh	17	35.25 (1.8)	24	45.26 (2.1)	31	88.84 (3.4)
2. Assam	2	1.86 (0.1)	3	6.04 (0.3)	3	6.29 (0.2)
3. Bihar	13	44.27 (2.3)	13	37.88 (1.8)	16	41.73 (1.6)
4. Chandigarh	—	—	—	—	1	2.35 (0.1)
5. Delhi	2	5.01 (0.3)	2	3.11 (0.2)	4	8.59 (0.3)
6. Goa	5	9.92 (0.5)	5	12.65 (0.6)	5	14.28 (0.5)
7. Gujarat	42	151.95 (7.9)	51	192.81 (9.1)	54	263.58 (9.9)
8. Haryana	9	22.11 (1.2)	12	29.15 (1.4)	16	42.05 (1.6)
9. Karnataka	27	173.11 (9.1)	28	196.24 (9.3)	31	151.66 (5.7)
10. Kerala	16	71.32 (3.7)	16	82.79 (3.9)	17	125.51 (4.7)
11. Madhya Pradesh	20	54.00 (2.8)	20	57.76 (2.7)	22	73.99 (2.8)
12. Maharashtra	92	405.48 (21.2)	100	491.34 (23.3)	131	724.47 (27.3)
13. Orissa	3	18.97 (1.0)	4	24.37 (1.2)	6	28.88 (1.1)
14. Pondicherry	2	3.28 (0.2)	3	10.08 (0.5)	3	10.55 (0.4)
15. Punjab	4	6.31 (0.3)	3	5.17 (0.2)	3	5.37 (0.2)
16. Rajasthan	7	37.19 (1.9)	12	51.13 (2.4)	12	38.17 (1.4)
17. Tamil Nadu	40	228.24 (11.9)	46	150.88 (7.1)	48	190.83 (7.2)
18. Uttar Pradesh	54	220.89 (11.6)	57	240.30 (11.4)	63	287.18 (10.8)
19. West Bengal	108	423.94 (22.2)	114	475.48 (22.5)	131	551.07 (20.8)
Total:	**463**	**1,913.10 (100.0)**	**513**	**2,112.44 (100.0)**	**597**	**2,655.39 (100.0)**

Note: Figures in brackets are percentages to total.

ing 12,007 units (with outstandings of Rs.94.73 crores) was yet to be decided by banks. Of the 6,505 viable units, 2,079 units (with an outstanding bank credit of Rs.66.85 crores) have been brought under the nursing programme by the banks.

Several important changes were brought about in the policy relating to sick units during the year. Emphasis has now been placed on the need to select only such units for revival as are viable on strictly commercial considerations. An important change in policy brought about during the year was the shift from ad-hoc nursing of sick units in the past towards making available assistance under well-integrated packages providing for removing the causes of sickness in addition to laying stress on various reliefs and concessions to be extended not only by the banks and the term lending institutions but also by the promoters, Government and labour. Another development was a shift in emphasis towards prevention of sickness rather than undertaking remedial measures at a later stage. This measure is expected to be less expensive and more productive in the long run.

The three vital stages in reviving a sick unit are: (i) identification of sickness in a unit, (ii) formulation of a package of rehabilitation for the unit if it is viable and (iii) implementation of the package.

Fresh guidelines giving details of the symptoms to be watched and the common causes of sickness were issued to banks in October 1985. In order to minimise the loss of time between the detection of the symptoms and the response thereto, the RBI introduced the concept of accountability at the branch level (where the symptoms are first observed) for timely reporting to the controlling authorities and initiating corrective action.

Realising the need for a selective and systematic approach towards rehabilitation of sick units, guidelines were issued to banks in November 1985 to ensure co-ordination between the banks and term-lending institutions in assessing the viability of a unit once identified as sick and in framing a suitable rehabilitation package for it, incorporating concessions and reliefs within the broad framework of detailed parameters evolved for the purpose. Measures have also been suggested to overcome delays in the formulation and implementation of packages of revival.

As recommended by Tiwari Committee, in order to handle industrial sicknes effectively, a significant new initiative was taken through the enactment of Sick Industrial Companies (Special Provisions) Act, 1985. The Act provided for the setting up of a Board for Industrial and Financial Reconstruction (BIFR). The Board which is a quasi-judicial body, has been vested with extensive powers. Under the Act, it is mandatory for a unit which has become sick (as per the definition in the Act) to report to the BIFR which acting through operating agencies (viz., ICICI, IFCI, IDBI and IRBI) would verify whether the unit is sick, ascertain its viability and where necessary get a package of rehabilitation for the units to be prepared, incorporating all the measures vital for the units' revival.

Industrial Licensing Policy

During 1985-86, the Government made far reaching changes in industrial policies aimed at removing constraints in growth and creating a more dynamic industrial atmosphere for rapid industrial growth. In addition, structural reforms in fiscal policy were also initiated with a view to accelerating growth, investment and productivity. Most of these policy changes are a reflection of the recommendations of several high-powered committees appointed by the Government in late 1984 and early 1985. The major policy changes effected during the year are enumerated below:

(1) In March 1985, the Government delicensed twentyfive broad categories of industries. These industries, henceforth, will require only registration with the Secretariat for Industrial Approvals (SIA) and no licence is to be obtained under the Industries (Development and Regulation) Act. This was, however, sub-

ject to the conditions that the undertakings concerned do not fall within the purview of the Monopolies and Restrictive Trade Practices (MRTP) Act or Foreign Exchange Regulation Act (FERA), the article of manufacture is not reserved for the small scale sector and the undertaking concerned is not located within specified urban locales. In June 1985, 82 bulk drugs and their formulations were also delicensed. In December 1985, 22 out of the 27 industries under FERA and MRTP Act were exempted from Sections 21 and 22 of the MRTP Act of 1969 and in May 1985, it was further provided that these undertakings were to be located in centrally declared backward areas.

(2) For many industries within the ambit of industrial licensing, broadbanding facility was provided to enable them to make rapid changes in their product-mix without applying for fresh licences. By the end of January 1986, 28 broad industry groups were accorded broadbanding facility.

(3) Towards the end of 1985, the Government announced a scheme of capacity re-endorsement under which this facility would be available to all units which have achieved 80 per cent of their licensed capacity during any of the previous five years preceding March 31, 1985. Licensed capacity will be re-endorsed to the extent of the highest production achieved during any of the previous five years plus one-third thereof. Re-endorsement facility was further available to the same extent to those undertakings whose production has exceeded the re-endorsed capacity. This facility is not, however, available to the items reserved for small scale sector, industries which face shortfalls in raw materials supply or infrastructure or high pollution-prone industries, MRTP and FERA companies in respect of Appendix-I industries and certain bulk drugs and pharmaceutical units. In case of units which have remained at uneconomic scales of operation even after availing of the facility of re-endorsement, such units will be permitted to expand upto their economic scales automatically.

(4) To accelerate modernisation and replacement in industry, a simplified procedure was announced by the Government in December 1985 for cases where an increase in capacity upto 49 per cent of the licensed capacity had resulted on account of modernisation/replacement or renovation. The locational constraints would not apply to those cases.

(5) In December 1985, Appendix-I (to the press note of February 2, 1973) industries list was revised and expanded. According to this, in 30 broad groups of industries, MRTP and FERA companies can establish capacities provided the concerned item of manufacture is not specifically reserved for the small scale or public sector. Outside Appendix-I industies, MRTP and FERA companies will be allowed to operate provided the product is predominantly for exports. This requires an export obligation of 60 per cent normally and 75 per cent if the item is reserved for small scale sector.

(6) With a view to inducing MRTP and FERA companies for larger industrialisation of backward areas, the Government liberalised further the conditions permitting these companies to establish non-Appendix-I industries in these areas. For such companies, the export obligation would be 50 per cent in categories B and C backward districts and 30 per cent in category A. In December 1985, the export obligation was further reduced to 25 per cent from 50 per cent in categories B and C districts and was completely dispensed with in category A districts.

(7) In July 1985, the Government permitted establishment of weaving capacity in the organised sector of the textile industry in consonance with the provisions of the New Textile Policy. Till then, only marginal expansion in the weaving capacity in the organised sector of the textile industry was permitted which was to be exclusively for exports.

Apart from these broad policy initiatives, certain sectoral policies covering textiles, sugar and electronics have been announced to revamp the respective industries.

Annual Plan 1986-87 — Outlay for Industry, Minerals and Energy Sector

The original outlay under the Annual Plan 1985-86 for the energy sector and the industries comprising village and small scale as well as large and medium, was Rs.10,603.55 crores (Table IV-8). But the exigencies of the emerging industrial climate particularly under the influence of the recast priorities of the Seventh Plan necessitated upward revision of this outlay to Rs.11,329.30 crores or by 6.8 per cent. As can be seen from the table, the major beneficiaries of the increased outlay were the industries like iron and steel, non-ferrous metals, paper and newsprint, petroleum and petrochemicals, although the outlay was reduced in the case of village and small scale industries, drugs and pharmaceuticals, fertilizers and textiles. Notable increases in outlay were in respect of those industries where substantial additional capacities have to be built up to meet the increased demand and to maintain the tempo of development while reduction in outlays has been done in respect of industries where sufficient capacities exist at present and the demand is expected to increase moderately over the years. The 1986-87 Annual Plan has provided Rs.12,096.99 crores for energy sector (consisting of power, new and renewable sources of energy, petroleum and coal), industry and minerals. This shows just 6.8 per cent increase over the revised outlay of Rs.11,329.30 crores for 1985-86 which was 13.6 per cent higher than the revised outlay for 1984-85. Category-wise, the infrastructure industries continue to get the priority over other industries. The share of the energy sector, iron and steel and cement in the 1986-87 outlay is 73.8 per cent, compared to that of 70.6 per cent in 1985-86 and 67.6 per cent in 1984-85. The significance attached to increasing production of steel and cement as also energy is evident from the larger allocation in the Annual Plan outlay over these years.

The total allocation for the energy sector comprising power (electricity-thermal as well as hydel), petroleum, coal and new and renewable sources of energy in 1986-87 is Rs.7,491.16 crores. Of this, power has been allocated Rs.2,994.64 crores in 1986-87 which is 36.3 per cent more than the revised outlay under the 1985-86 annual plan. Likewise, petroleum gets Rs.3,216.00 crores – higher by 3.7 per cent compared to increase of 20.3 per cent recorded in 1985-86 over the revised outlay for the previous year. The main reason appears to be the phenomenal fall in the international prices of oil and the Government, therefore, embarked upon imports of oil at market prices to meet the domestic demand.

Among the other industries, the allocation of outlays in respect of non-ferrous metals, cement, paper and newsprint as also miscellaneous individual industries were considerably lower than those in the previous year.

Selected Industries: A Review

The performance of selected industries in four broad groups, viz., basic goods, capital goods, intermediate goods and consumer goods industries during the year 1985-86 is briefly reviewed below.

A. Basic Industries

(a) Coal

During the year 1985-86 (April-March), top priority was given to the task of bringing the pit-head stocks of coal (which were at a very high level of 30.2 million tonnes at end-March 1985) within feasible limits. As a result of this policy, coal production target for 1985-86 was brought down by 4.0 million tonnes to 154.5 million tonnes from the original level of 158.5 million tonnes. Compared to this revised target, actual coal production (excluding lignite) during the year at 154.3 million tonnes was higher by 6.9 million tonnes (4.7 per cent) over the output of 147.4 million tonnes in 1984-85 (Table IV-9). The coal production could have been little higher but for certain constraints, such as power shortage, adverse geo-mining conditions, absenteeism, break down of heavy machineries, etc., especially in the mines of Eastern Coalfields Ltd. (ECL), Bharat Coking

Table IV-8: Outlay for Selected Sectors / Industries in the Central Sector under Annual Plan

(Rupees crores)

Sector/Industry	April-March			
	1984-85	1985-86		1986-87
	Revised Outlay	Original Outlay	Revised Outlay	Proposed Outlay
1	2	3	4	5
I. Energy Sector	**5,317.22**	**6,580.51**	**6,415.82**	**7,491.16**
	(+15.4)		(+20.7)	(+16.8)
a) Power	1,743.01	2,406.51	2,197.49	2,994.64
	(+46.9)		(+26.1)	(+36.3)
b) New and renewable sources of Energy	82.27	92.00	119.60	100.75
	(+229.1)		(+45.4)	(−15.8)
c) Petroleum	2,578.72	3,085.00	3,101.35	3,216.00
	(+6.2)		(+20.3)	(+3.7)
d) Coal	913.22	997.00	997.38	1,179.77
	(−5.7)		(+9.2)	(+18.3)
II. Village and Small Scale Industries	**392.89**	**313.25**	**297.40**	**327.75**
	(−86.0)		(−24.3)	(+10.2)
III. Large and Medium Industries	**4,263.53**	**3,709.79**	**4,616.08**	**4,278.08**
	(−27.5)		(+8.3)	(−7.3)
of which:				
a) Iron and Steel	1,340.26	925.00	1,501.56	1,350.00
	(+31.6)		(+12.0)	(−10.1)
b) Petrochemicals	167.63	176.00	203.70	273.49
	(+34.8)		(+21.5)	(+34.3)
c) Non-ferrous Metals	777.32	566.32	827.40	571.14
	(+115.4)		(+6.4)	(−31.0)
d) Fertilizers	689.52	783.48	690.06	875.00
	(+18.6)		(+0.1)	(+26.8)
e) Cement	86.92	83.00	85.30	83.00
	(+182.6)		(−1.9)	(−2.7)
f) Drugs and Pharmaceuticals	12.16	19.46	10.18	12.00
	(−4.5)		(−16.3)	(+17.9)
g) Paper and Newsprint	116.00	85.85	107.62	82.50
	(+24.0)		(−7.2)	(−23.3)
h) Textiles	35.00	25.00	20.00	25.00
	(+64.7)		(−42.9)	(+25.0)
i) Other Industries*	1,038.72	1,045.68	1,170.26	1,005.95
	(−5.7)		(+12.7)	(−14.0)
Total (II + III)	**4,656.42**	**4,023.04**	**4,913.48**	**4,605.83**
	(+31.0)		(+5.5)	(−6.3)
Grand Total (I + II + III)	**9,973.64**	**10,603.55**	**11,329.30**	**12,096.99**
	(+22.2)		(+13.6)	(+6.8)

* : Residual.

Note : Figures in brackets are percentage variations over the preceding year.

Source : Annual Plan Budget, Government of India, 1986-87.

Coal Ltd. (BCCL) and Central Coalfields Ltd. (CCL). The level of pit-head stocks at the end of March 1986 was lower by 4.0 per cent compared with the level a year ago.

For the year 1986-87, coal production is targeted at 166.8 million tonnes against the projected demand of 176.1 million tonnes (excluding 5.7 million tonnes for middlings) by the Planning Commission. The gap is to be met by drawing down of 7.9 million tonnes of pit-head stocks and through imports.

Table IV-9 : Performance of Coal Industry

(Million tonnes)

Item	April-March		
	1983-84	1984-85(P)	1985-86(P)
1	2	3	4
1. Production			
(a) Coal (i+ii)	**138.2**	**147.4**	**154.3**
	(+5.8)	(+6.7)	(+4.7)
(i) Coking Coal	36.0	36.0	35.2
	(−2.7)	(—)	(−2.2)
(ii) Non-coking Coal	102.2	111.4	119.1
	(+9.2)	(+9.0)	(+6.9)
(b) Lignite	7.3	7.8	8.0
	(+5.8)	(+6.8)	(+2.6)
2. Imports (Coking Coal)	**0.5**	**0.7**	**2.0**
3. Despatches (i + ii)	**130.3**	**134.9**	**150.7**
	(+5.4)	(+3.5)	(+11.7)
(i) Coking Coal	34.9	32.5	33.8
	(−2.5)	(−6.9)	(+4.0)
(ii) Non-coking Coal	95.4	102.4	116.9
	(+8.7)	(+7.3)	(+14.2)
4. Exports	**0.1**	**0.1**	**0.2**
5. Year-end Pit-head Stocks (i+ii)	**22.9**	**30.2**	**29.0**
	(+2.2)	**(+31.9)**	**(−4.0)**
(i) Coking Coal	7.1	9.7	9.6
	(−22.8)	(+36.6)	(−1.0)
(ii) Non-coking Coal	15.8	20.5	19.4
	(+19.7)	(+29.7)	(−5.4)

P : Provisional.

Note : 1) Figures in brackets represent percentage variations over the preceding year.
2) Figures of year-end stocks cannot be arrived at on the basis of other figures in the Table as figures relating to exports of coal represent actual exports and not despatches for exports.

Source : Department of Coal, Ministry of Energy.

During the year the Government took a number of measures with a view to increasing coal production. These included (i) improvement in power supply to coal mines, mainly from Damodar Valley Corporation (DVC), (ii) control over absenteeism by taking action under relevant provisions of labour laws, (iii) expediting land acquisition cases for construction of coal mines, (iv) providing necessary infrastructural facilities for coal mining/ opening of new coal mining projects and modernisation of existing ones and (v) close monitoring of the performance of collieries at all levels in the company and in the Government. In addition, two committees, viz., Chari Committee and Banerjee Committee were appointed by the Government to identify problems and to suggest remedial measures to improve working of ECL and BCCL, respectively. The Chari Committee report submitted in October 1985 is reported to be under active consideration of the Government/CIL. Keeping in view that inadequate and inconsistent supply of power had been one of the major causes for production losses in coal mines in the Eastern Region, Government appointed another Committee under the Chairmanship of S. Ramanathan, to examine all aspects in detail and suggest remedial measures. The Committee submitted its Report to the Government in August 1985 and after accepting its recommendations, Government has directed concerned agencies such as Damodar Valley Corporation (DVC), Coal India Ltd. (CIL), etc., to implement them.

In tune with the policy of cutting down the pit-head stocks, coal production target for 1985-86 for CIL (which accounts for about 90 per cent of the coal production in the country) was also revised downward from 137.5 million tonnes to 133.5 million tonnes. Against this revised target, coal output from CIL at 134.1 million tonnes was higher than that of last year by 3.3 million tonnes. Output per manshift (OMS) for CIL mines increased to 0.89 tonnes in 1985-86 from 0.87 tonnes in 1984-85. The OMS in Singareni Collieries Co. Ltd. (SCCL) which was stagnating at 0.70 tonnes during last two years, increased to 0.82 tonnes in 1985-86. However, utilisation of coal mines capacity (excluding coal production from manual open cast) under CIL (excluding NEC) declined from 89.0 per cent in 1984-85 to 88.0 per cent in 1985-86.

Coal despatches during 1985-86 at 150.7 million tonnes registered an appreciable increase of 11.7 per cent over that of 134.9 million tonnes in last year due, mainly, to higher tonnage of coal (101.4 million tonnes) carried by rail during the current year as compared with that in the preceding year (91.6 million tonnes). The daily average coal loading in CIL increased from 10,230 wagons per day in 1984-85 to 10,878 wagons per day in 1985-86.

With a view to increasing coal production, Government sanctioned in 1985-86, 16 coal mining projects with a capacity of 39.2 million tonnes per annum at a total capital cost of Rs.1,661.69 crores, while another 6 coal projects with targeted production of 9.6 million tonnes per annum at a total estimated cost of Rs.620.80 crores are under finalisation. As at end-December 1985, there were 158 Coal Mining Projects (each costing Rs.5 crores and more, sanctioned since nationalisation of coal industry in 1973) with a sanctioned capacity of 189.89 million tonnes per annum. Of these 158 projects, 35 were completed, 121 were at various stages of development and the remaining two could not be taken up due to difficult geomining conditions.

In view of the projected increase in production and huge investment contemplated for Central Coalfields Ltd. (CCL) and Western Coalfields Ltd. (WCL), their extensive geographical coverage, resulting in day-to-day administrative, technical and communication problems, etc., two new coal companies, viz., Northern Coalfields Ltd. (NCL) and South Eastern Coalfields Ltd. (SECL) were carved out of them and were incorporated as subsidiaries of CIL with effect from November 1985.

Several steps were taken during the year in order to improve the quality of coal. These included: (i) setting up of an independent quality control organisation in each coal company,

(ii) breaking up of oversized coal and segregation of extraneous material by manual means where Coal Handling Plants (CHPs) do not exist, (iii) delegation of power to the Coal Controller, an independent authority, to determine the grades of coal seams in the mines as also of coal supplied to the consumers, (iv) regular monitoring of the quality complaints by Department of Coal, (v) creation of awareness amongst concerned personnel in coal companies regarding the necessity of supplying coal of proper quality and size and (vi) modernisation of washeries and introduction of new technology of coal benefication. In addition, priority was given to construction of Coal Handling Plants (CHPs). At end-March 1986, 251 CHPs, comprising 66 major and 185 mini-plants with a capacity of 95.45 million tonnes were expected to be in operation handling about 60 per cent of the total coal production during the year as against 56 per cent in 1984-85.

A substantial escalation in cost of production since January 1984 (when the last revision in coal prices took place), such as increases in wages, depreciation and interest charges, power tariff, etc., necessitated an upward revision of coal prices with effect from January 9, 1986. The average pit-head price was enhanced by Rs.27 from Rs.183 per tonne to Rs.210 per tonne in case of CIL and from Rs.192 per tonne to Rs.219 per tonne in case of SCCL. Price of soft coke used as domestic fuel, however, was retained at 1982 level of Rs.175 per tonne though for the industrial consumers the price was raised to Rs.300 per tonne.

(b) Iron Ore

During 1985, iron ore output at 42.5 million tonnes recorded a marginal increase of 1.2 per cent as compared to a substantial increase of 10.2 per cent in the previous year (Table IV-10). The output from captive mines of steel plants constituted 33.0 per cent of the total production during 1985 as compared to 34.0 per cent in 1984. The pit-head stocks of iron ore registered a steep decline of 18.6 per cent from 4.3 million tonnes at end-December 1984 to 3.5 million tonnes at end-December 1985. While the despatches of iron ore (including concentrates) for internal consumption remained stagnant at last year's level of 16.6 million tonnes during 1985, despatches for exports is expected to have grown at a lower rate of 12.4 per cent as compared to 17.9 per cent last year.

Table IV-10 : Performance of Iron Ore Industry

(Million tonnes)

Item	January-December		
	1983	1984(P)	1985(P)
1	2	3	4
Production	38.1 (−11.0)	42.0 (+10.2)	42.5 (+1.2)
Despatches for Exports ‡	21.2 (−14.2)	25.0 (+17.9)	28.1 (+12.4)
Year-end Stocks	4.9 (+14.0)	4.3 (−12.2)	3.5 (−18.6)

P : Provisional.

‡ : Including concentrates.

Note : Figures in brackets represent percentage variations over the previous year.

Sources : Indian Bureau of Mines and Department of Steel, Ministry of Steel and Mines, Government of India.

The National Mineral Development Corporation Limited (NMDC) which produces iron ore only for exports increased its sales of iron ore from 7.64 million tonnes in 1984-85 to 8.47 million tonnes in 1985-86. The projects of NMDC under construction are (i) development of Bailadila 11/C deposit to supplement and replace the Bailadila — 14 deposit (in view of its yearly dwindling production) and (ii) Bailadila – 5 for handling fine ore. In addition, the following two projects were under investigation/planning:

(i) Bailadila – 11B, a new mine based on iron ore deposit No.11B to meet the needs of export market as well as Visakhapatnam Steel Plant.

(ii) Mechanised fine ore handling scheme at Bailadila — 14/11C.

The Kudremukh Iron Ore Company Ltd. (KIOCL) was established in April 1976 with a designed capacity of 7.5 million tonnes to meet Iran's long-term requirements of iron ore. However, in view of Iran's failure to lift the iron ore concentrates, the company had to plan its production according to demand from alternate buyers. As part of revitalising the project, in the context of an encouraging demand forecast for the pellets, a plant for the conversion of 3 million tonnes/year of Kudremukh iron ore concentrates into pellets was set up at Mangalore and the commercial production at the plant was expected to commence from November 1986. As against a target of 2.00 million tonnes of export of concentrates fixed for 1985-86, KIOCL exported 1.81 million tonnes till February 1986. For 1986-87, the company has planned export of over 3 million tonnes of concentrates. Initially the exports of concentrates from KIOCL were confined mainly to Romania, Czechoslovakia and Bahrain. As a result of intensive and persistent marketing efforts, KIOCL have now been able to extend their activities to new areas such as Japan and certain West European countries like Holland and France. Exports of concentrates to Yugoslavia and China also seem to be within reach.

(c) Cement

Cement production during the year 1985-86 (April-March) at 33.11 million tonnes though higher by 2.92 million tonnes over that of 30.19 million tonnes in 1984-85, registered a lower growth rate of 9.7 per cent in the current year as against 11.5 per cent in the preceding year and fell short by 1.2 per cent from the revised targeted output of 33.5 million tonnes (Table IV-11). The fall in growth rate in production was due, mainly, to infrastructural constraints like power cuts in a number of major cement producing States, shortage of wagons and labour trouble in certain factories.

With the addition of 2.57 million tonnes to the installed capacity during 1985-86 (as against 3.75 million tonnes in 1984-85), the overall installed capacity in the industry reached 43.36 million tonnes at end-March 1986. However, it fell short of the targeted capacity of 44.92 million tonnes set for the year. Average capacity utilisation in the industry improved to 78.7 per cent in the current year from 77.6 per cent in the previous year.

Commensurate with slower growth rate in cement production, cement despatches also grew at a lower rate of 8.3 per cent to 31.80 million tonnes in 1985-86 as compared to 10.3 per cent in the previous year. This slower growth rate in despatches during the year was due, mainly, to non-availability of adequate wagons, sluggishness in construction activities in some States and disturbed conditions in certain States resulting in restricted rail movements.

Cement is imported in accordance with the import policy announced at the beginning of every financial year after assessing the overall availability of cement in the country. It has been observed that with any anticipated shortfall in production, there is a tendency for the wholesale/retail prices to go up. As cement is a basic input, Government has to take precautionary steps to prevent any rise in its price. Import of cement is one such step utilised as an instrument of stabilisation amidst persistent

Table IV-11 : Performance of Cement Industry

(Million tonnes)

Item	April-March		
	1983-84	1984-85(P)	1985-86(P)
1	2	3	4
Installed Capacity	37.04	40.79	43.36
	(+7.7)	(+10.1)	(+6.3)
Production	27.07	30.19	33.11
	(+16.1)	(+11.5)	(+9.7)
Despatches	26.63	29.37	31.80
	(+15.1)	(+10.3)	(+8.3)
Average Capacity Utilisation Ratio (per cent)	75.8	77.6	78.7
Imports	2.38	0.37	0.33
Year-end Stocks	0.43	0.53	0.60

P : Provisional.

Notes : 1) Data relating to installed capacity, production and capacity utilisation relate to the industry as a whole while that of despatches and stocks are exclusive of mini and white cement plants.

2) Figures in brackets represent percentage variations over the preceding year.

Source : Office of the Development Commissioner for Cement Industry, Ministry of Industry.

gap between domestic production and projected demand. The imports were as high as 2.38 million tonnes in 1983-84 whereas in 1984-85, they were as low as 0.37 million tonnes. During 1985-86 though the Government decided to import 0.50 million tonnes of cement, the actual imports were lower at 0.33 million tonnes.

The year-end stocks of cement at 0.60 million tonnes at end-March 1986 showed an absolute rise of 0.07 million tonnes (13.2 per cent) over that of 0.53 million tonnes a year ago. However, on an average, large-sized cement plants (which account for about 97.0 per cent of the total production) were keeping 5 to 6 days' production as stocks during the current as well as last year.

In order to compensate cement units for cost escalations due to increase in prices of raw materials, fuel, wages, etc., the Government reduced the levy quota obligation with effect from June 4, 1985 from 65 per cent of installed capacity to 60 per cent of actual production in the case of old units and from 45 per cent of installed capacity to 40 per cent of actual production for new and sick units. Further, with effect from March 1, 1986, the Government again announced certain modifications in fixation of levy quota with a view to providing incentives to cement units for more production, particularly to those producing more than their capacity. Under the modified formula, levy quota obligation in the case of old units has been fixed at 60 per cent of the actual production upto 100 per cent of the licensed capacity and 45 per cent beyond 100 per cent and upto 125 per cent, while in the case of new units, this obligation has been set at 40 per cent of actual production upto 100 per cent of the licensed capacity and 30 per cent beyond 100 per cent and upto 125 per cent.

As at end-March 1986, 19 cement units with an annual capacity of 7.78 million tonnes (17.9 per cent of total annual installed capacity) were in operation in the public sector, of which, 9 units with a total annual installed capacity of 2.82 million tonnes were under the control of Cement Corporation of India Ltd. (CCI). As against the target of 5.17 million tonnes, public sector units produced 4.61 million tonnes cement in 1985-86, registering a rise of 3.1 per cent over the previous year's production.

However, their contribution to production declined to 13.9 per cent in 1985-86 from 14.8 per cent in 1984-85 due, mainly, to the unsatisfactory performance of some CCI units on account of (i) severe power cuts/shortages, fluctuations and trippings in the plants, particularly located in Karnataka and Haryana, (ii) non-availability of adequate wagons, (iii) time lost due to rehabilitation of some units, (iv) shortage and poor quality of coal and (v) labour problem in certain factories.

There were 61 mini-cement plants in operation with an annual installed capacity of 1.75 million tonnes at end-March 1986, compared to 26 mini-cement plants with an annual capacity of 0.79 million tonnes a year ago. During 1985-86, mini-cement plants' production at 0.96 million tonnes, as against 0.49 million tonnes in the previous year, exceeded the output target of 0.50 million tonnes set for the year. The share of mini-cement plants in total domestic production further improved to 2.9 per cent in the current year from 1.6 per cent in the preceding year. One of the major problems before the mini-cement plants was their low capacity utilisation due to infrastructural bottlenecks, particularly inadequate supply of power, coal, wagons and teething troubles.

The industry has an ambitious plan for modernisation/expansion, involving a total capital investment of about Rs.2,700 crores. The industry has so far incurred an expenditure of Rs.963 crores. The modernisation/expansion plan include among other things (i) conversion of manufacturing process from wet to dry which is more fuel efficient, (ii) energy conservation measures, (iii) progressive adoption of latest technology such as pre-heater and pre-calcinator, (iv) installation of pollution control devices, particularly electrostatic precipitators, (v) setting up of captive power units, (vi) modernisation of quarry operations, crushing, grinding and material handling equipment and (vii) installation of modern instrumentations and process control devices. In order to encourage modernisation, particularly conversion from wet process kilns to dry process kilns, Government has decided to treat the production of cement from modernised plants (part or whole as the case may be) as production coming out from new plants.

In order to minimise the uncertainty on account of power cuts, Government has encouraged the cement industry to set up captive power plants so that at least 40 per cent of the power requirements of factories are met by captive generation. The industry has so far installed captive power plants of 332 MW capacity while captive generation capacity to the extent of 200 MW is in the pipe line. Another factor affecting the production of cement is the supply of coal of right quality and quantity at the right time. The higher priority being given for coal supply to thermal power plants had reportedly led to the reduced supply of coal to the cement plants.

(d) Iron and Steel

During the year, 1985-86, production of steel ingots, saleable steel and finished steel grew at higher rates of 9.2 per cent, 11.1 per cent and 9.6 per cent, respectively, over the likely increases of 4.6 per cent, 9.4 per cent and 7.1 per cent recorded last year (Table IV-12). Production could have been better but for the constraints in basic inputs,viz., power, coking coal (quality and quantity) and to a limited extent in rail transport. Severe power restrictions (particularly in the first quarter) imposed by Orissa State Electricity Board and Damodar Valley Corporation (DVC), seriously affected the working of Rourkela, Durgapur and Bokaro Steel Plants.

Production of *Saleable steel* in six integrated steel plants at 7,775 thousand tonnes in 1985-86 was higher by 11.1 per cent over that of 6,997 thousand tonnes in the previous year. Incidentally, it also exceeded the target of 7,700 thousand tonnes set for 1985-86. While the combined production of five integrated steel plants under the management of Steel Authority of India Limited (SAIL) at 6,004 thousand tonnes was higher by 721 thousand tonnes (or 13.6 per cent) as compared to their production of 5,283 thousand tonnes in 1984-85, that of Tata Iron

Table IV-12 : Production of Steel

(Thousand tonnes)

Year (April-March)	Bhilai	Durgapur	Rourkela	Bokaro	TISCO	IISCO	Total (2 to 7)	VISL	ASP	Total (9 + 10)
1	2	3	4	5	6	7	8	9	10	11
Production of Steel Ingot										
1983-84	1,837	806	1,088	1,681	1,973	543	7,928 (−8.1)	69	67	136 (−22.3)
1984-85(P)	1,998	760	1,119	1,925	2,050	444	8,296 (+4.6)	89	85	174 (+27.9)
1985-86 (P)	2,345	875	1,177	2,003	2,095	565	9,060 (+9.2)	74	101	175 (+0.6)
Production of Saleable Steel										
1983-84	1,575	602	862	1,288	1,626	444	6,397 (−12.3)	59	44	103 (−7.2)
1984-85 (P)	1,810	621	1,013	1,459	1,714	380	6,997 (+9.4)	70	59	129 (+25.2)
1985-86 (P)	2,055	724	1,005	1,720	1,771	500	7,775 (+11.1)	54	60	114 (−11.6)
Production of Finished Steel										
1983-84	1,206	340	823	1,283	882	352	4,886 (−10.7)	59	44	103 (−7.2)
1984-85 (P)	1,273	348	962	1,403	960	287	5,233 (+7.1)	70	59	129 (+25.2)
1985-86 (P)	1,556	423	925	1,555	912	366	5,737 (+9.6)	54	60	114 (−11.6)

P : Provisional.
VISL : Visvesvaraya Iron and Steel Ltd.
ASP : Alloy Steels Plant.
Note : Figures in brackets represent percentage variations over the preceding year.
Source : Steel Authority of India Ltd.

and Steel Co. Ltd. (TISCO) increased by 57 thousand tonnes (or 3.3 per cent) to 1,771 thousand tonnes during the year. The SAIL and TISCO surpassed the 1985-86 targets of production of 5,960 thousand tonnes and 1,740 thousand tonnes by 0.7 per cent and 1.8 per cent, respectively. This higher production was possible mainly because of rise in the average capacity utilisation of six integrated steel plants from 78.3 per cent in 1984-85 to 87.0 per cent in 1985-86. As for 1986-87, production target of 8,960 thousand tonnes of saleable steel comprising 7,220 thousand tonnes for SAIL and 1,740 thousand tonnes for TISCO has been set.

Despatches of saleable steel out of domestic production during 1985-86 at 6,870 thousand tonnes were higher by 2.4 per cent as against a decline of 2.0 per cent witnessed in the preceding year. The stocks of saleable steel with the main producers increased to 729 thousand tonnes in 1985-86 from 666 thousand tonnes in 1984-85.

There were no saleable steel exports in 1985-86 whereas 153 thousand tonnes were exported in the preceding year. The imports, on the other hand, increased significantly from 625

thousand tonnes to 1,113 thousand tonnes in 1985-86.

Ingot steel output in the integrated steel plants at 9,060 thousand tonnes showed a higher increase of 9.2 per cent in 1985-86 as compared to 4.6 per cent increase in the previous year. As in the case of saleable steel, average capacity utilisation of integrated steel plants in respect of ingot steel also improved to 78.4 per cent in 1985-86 from 71.8 per cent in the preceding year.

The electric arc furnace units (mini-steel plants) play an important role in steel production in the country. At present 199 units with a total capacity of 6.20 million tonnes have been issued industrial licences/letters of intent. Of these, 159 units with a total licensed capacity of over 4.50 million tonnes, have already been commissioned. During 1985-86, production of mild steel, medium/high carbon and alloy steel of the units (reporting to the Iron and Steel Controller) stood at 2.57 million tonnes which was higher by 0.23 million tonnes (or 9.8 per cent) compared to last year's production. The increased production by mini-steel plants was reportedly due to improvement in scrap availability. In order to meet the increased requirement of scrap for mini-steel plants, imports of melting scrap and sponge iron were expected to be stepped up to 1.3 million tonnes in 1985-86 from 0.8 million tonnes in 1984-85. However, to reduce imports of scrap in future, a major thrust is being given to the setting up of sponge iron plants. At present two such units with a capacity of 0.2 million tonnes are in production and three more units with a capacity of nearly 0.4 million tonnes are being set up. The Department of Steel has set up a coal linkage committee to facilitate supply of coal to sponge iron units. A Development Council is also being set up for the electric arc furnace and sponge iron industry. The total output of rolled products by the reporting re-rolling units during 1985-86 at 2.62 million tonnes was higher by 22.4 per cent over the output of 2.14 million tonnes last year.

During the year under review no increases were allowed in the administered prices of steel. Iron and steel materials are supplied by the main producers at a uniform price throughout the country. Similarly sales through stockyards are also at uniform prices throughout the country. For this purpose, a freight equalisation fund is being operated and maintained by the Joint Plant Committee. Presently, the freight element for steel is Rs.470 per tonne and Rs.320 per tonne for pig iron. On the recommendations made by the National Transport Policy Committee (Pande Committee), Government has decided, in principle, to phase out freight equalisation in respect of industrial commodities including iron and steel.

The measures introduced in the previous years to ensure fair distribution of available material were continued during the year. During the year main producers, viz., SAIL and TISCO made greater use of the conversions scheme, under which they got the billets produced by them converted into bars and rods for meeting the requirements of priority sector consumers.

With effect from the quarter, January-March, 1986, SAIL has introduced a scheme for timely supply of certain materials, like HR coils/skelp, CR coils/sheets, plates. This scheme envisages orders by customers for specific quantity giving month-wise delivery schedules with an earnest money deposit and financial arrangements in the form of a Letter of Credit. SAIL has undertaken to ensure supplies as per accepted schedule and to compensate the consumers by payment of penalty in case of delays in supplies.

The increase in production of the integrated steel plants and mini-steel plants has eased the availability of steel in the market and this is reflected in the decline in prices of traded steel to the tune of Rs.1,000 per tonne since April last year. With a view to examine all technical aspects in steel industry and to advise the Minister of Steel on policies, programmes meant for development of design and research in iron and steel process and products, the Department of Steel has constituted a Scientific Advisory Committee with Scientific Adviser to

Defence Minister as its Chairman. There have also been noticeable improvements in technical performance of the steel plants with a decline in coal consumption per tonne of saleable steel, reduction in energy consumption and increase in blast furnace productivity. These techno-economic improvements have, reportedly, led to a saving of about Rs.26 crores to SAIL during the first 9 months of the year. This improvement is also reflected in the finances of SAIL. As against a profit of Rs.4 crores in 1984-85, SAIL's profits are expected to exceed Rs.100 crores by the end of the year.

At present, SAIL including IISCO have a network of 48 departmental stockyards, 12 consignment agency yards and 69 other conversion agents/twisting yards throughout the country. TISCO has 11 stockyards and 87 other distribution outlets. SAIL has opened a new stockyard at Dharmanagar in Tripura and a consignment agency yard at Jabalpur in Madhya Pradesh. Efforts are also on for reactivating SAIL yards at Lucknow and for opening outlets at Kolhapur and Goa during the year. IISCO has also opened a stockyard at Burnpur (West Bengal) during the year.

Some of the important schemes under implementation/consideration were (i) expansion of Bhilai and Bokaro Steel Plants to a capacity of 4.00 millions ingot tonnes each, (ii) increase in the capacity of Durgapur Alloy Steels Plant, to 260 thousand tonnes of liquid steel under its stage-II expansion/modernisation programme, (iii) setting up of a project to produce 37.5 thousand tonnes of cold rolled grain oriented electrical steel sheets and 36 thousand tonnes per annum of cold rolled non-grain oriented steel sheets per annum at Rourkela Steel Plant and (iv) modernisation of Rourkela, Durgapur and Burnpur Steel Plants in order to increase productivity with minimum investment.

(e) Electricity

Electricity generation in the country during 1985-86 (April-March) at 170.0 billion units (kwh), though equalled the target fixed at 170 billion units (kwh), recorded a lower growth rate of 8.6 per cent in 1985-86 as compared to 12.0 per cent in the preceding year (Table IV-13). Source-wise, the thermal power generation (constituting about 67.1 per cent of total power output), was higher by 15.5 per cent as compared to 14.1 per cent last year. Hydel power generation (accounting for a little less than one third of total power output) declined steeply by 5.3 per cent in 1985-86 as compared to an increase of 7.9 per cent in the preceding year. This shortfall is primarily on account of low hydel reservoir levels in the Western and Southern regions. However, the nuclear power generation registered a substantial increase of 22.2 per cent during the year under review mainly due to achieving criticality of the second unit of the Madras Atomic Power Station (MAPS) and the uninterrupted operation of the second unit of Tarapur Atomic Power Station (TAPS) for a record period of 189 days.

During the year a number of measures were introduced for achieving optimum utilisation of installed thermal capacity. This resulted in higher Plant Load Factor (PLF) of thermal plants to 52.4 per cent in 1985-86 from 50.1 per cent last year. A centrally sponsored Renovation and Modernisation Scheme launched in 1984 has been extended to 156 generating units of various sizes in 32 thermal stations. It is expected that on completion,this scheme will result in an additional generation of about 7,000 million units per annum.

The power supply during the year grew at a lower rate of 8.4 per cent as compared to 11.8 per cent recorded last year. However, the demand witnessed a higher rate of growth of 9.9 per cent as compared to 7.0 per cent last year. This mis-match between demand for and supply of power resulted in accentuating the power shortage to 7.9 per cent during 1985-86 as compared to 6.7 per cent last year.

During 1985-86, a higher priority was accorded to the construction of transmission projects, particularly in the context of evacuation of power from the Central Generating Stations to the beneficiary States. The programme for the year included construction of 2,428 circuit kilo-

Table IV-13 : Source-wise Break-up of Generation of Electric Power

(Million Kilo Watt Hours)

Sources	April-March					
	1983-84		1984-85(P)		1985-86 (P)	
	Power Generation	Percentage	Power Generation	Percentage	Power Generation	Percentage
1	2	3	4	5	6	7
1. Thermal	86,535 (+8.6)	61.9	98,770 (+14.1)	63.1	114,119 (+15.5)	67.1
2. Hydel	49,867 (+3.3)	35.6	53,785 (+7.9)	34.3	50,933 (−5.3)	30.0
3. Nuclear	3,494 (+72.6)	2.5	4,078 (+16.7)	2.6	4,985 (+22.2)	2.9
Total	**139,896 (+7.6)**	**100.0**	**156,633 (+12.0)**	**100.0**	**170,037 (+8.6)**	**100.0**

P : Provisional.

Note : Figures in brackets indicate percentage variations over the preceding year.

Source : Central Electricity Authority.

meters (Cct-Kms.) of 400 KV lines and 2,413 Cct-Kms. of 220 KV lines alongwith the associated substations.

Region-wise, the highest growth of 25.0 per cent in thermal generation during 1985-86 was recorded by Southern region followed by Western and Northern regions at 15.1 per cent and 14.3 per cent, respectively. As regards hydel power excepting Northern and North-eastern regions,all the other regions have recorded declines. In Western as well as in Southern regions, the declines were as steep as 12.5 per cent and 13.7 per cent, respectively. Overall growth in electricity generation during the year was the highest in Northern region (11.2 per cent) and the lowest in the Southern region (3.2 per cent).

In order to reduce transmission and distribution losses all the State Electricity Boards/ State Governments have been asked to introduce measures in conformity with the guidelines and instructions formulated by the Central Electricity Authority (CEA). Some of these measures are: identification of elements in the distribution systems responsible for such losses; preparation of schemes for strengthening of sub-transmission and distribution systems according to time-bound programmes; relocation of sub-stations closer to the load centres and reduction of lengths of individual sub-transmission and distribution lines and setting up of vigilance squads to conduct surprise inspections.

In order to contain theft of power in the course of transmission and distribution which accounts for a part of the transmission and distribution losses, it has been proposed to amend the Indian Electricity Act, 1910 and make theft of power a cognizable offence. Further, a pilot project for minimisation of loss of power in the 11 KV feeders is being set up during the year by the Rural Electrification Corporation.

Emphasising the need to conserve energy, an Energy Conservation Wing has been set up in the Department of Power to act as the focal point to co-ordinate efforts to conserve energy. Further, to identify the requirements of high

technology for the power sector and to formulate a concrete and integrated 'action plan' through an institutional mechanism thereby involving an interaction with scientific and technological laboratories, a Scientific Advisory Committee has been constituted for the Department of Power under the Chairmanship of Secretary (Power).

A major development in the field of power generation during 1985-86 was the creation of an additional capacity to the tune of 4,223 MW (Table IV-14) thereby raising the total installed capacity to 46,663 MW. Out of this, a major share was allocated to thermal power (2,977 MW) followed by hydel power (1,011 MW). However, noteworthy was the addition of 235 MW in 1985-86 to the stagnant nuclear capacity in 1984-85.

Table IV-14 : Installed Plant Capacity

(Mega Watt)

Year (April-March)	Thermal	Hydel	Nuclear	Total
1	2	3	4	5
1983-84	23,826	13,763	1,095	38,684
	(+13.1)	(+8.3)	(+27.3)	(+11.7)
1984-85 (P)	27,074	14,271	1,095	42,440
	(+13.6)	(+3.7)	(—)	(+9.7)
1985-86 (P)	30,051	15,282	1,330	46,663
	(+11.0)	(+7.1)	(+21.5)	(+10.0)

P: Provisional.
Note: Figures in brackets indicate percentage variations over the preceding year
Source: Central Electricity Authority.

During the year, 20,648 villages and 3,95,783 pumpsets were targeted for electrification/ energisation. Upto end-January 1986, a total of 10,677 villages were electrified and 2,47,597 pumpsets were energised. Cumulatively, 3.80 lakh villages had been electrified and 59.69 lakh pumpsets had been energised.

(f) Crude Oil and Petroleum Refinery Products

Crude oil output increased by 4.1 per cent to 30.2 million tonnes in 1985-86 as against 29.0 million tonnes in 1984-85 (Table IV-15). It marginally exceeded the target of 30.1 million tonnes set for the year 1985-86. Agency-wise, of the total production during 1985-86, 27.5 million tonnes (91.1 per cent) comprising 6.7 million tonnes (22.2 per cent) from on-shore wells and 20.8 million tonnes (68.9 per cent) from off-shore wells were produced by the Oil and Natural Gas Commission (ONGC) and the balance of 2.7 million tonnes (8.9 per cent) was accounted for by Oil India Ltd. (OIL). Increased production of crude oil during the year resulted mainly from the accelerated exploration activities undertaken by ONGC both in the on-shore and off-shore areas. For the year 1986-87 a revised target of 30.2 million tonnes (i.e. more or less equal to the crude oil production achieved in 1985-86) has been fixed.

During the year, ONGC continued its exploration activities, both off-shore and on-shore areas. Some of the major achievements were the oil and gas discoveries at Narsapur and Kaza structures in Krishna Godavari, Narimanam in Cauvery and B-74, D-18, Panna East, B-172 structure in Bombay High off-shore. Further, regular crude oil production was started from three new structures, viz., Dahej, Balol and Wasna in Gujarat.

Table IV-15 : Crude Oil and Petroleum Refinery Products

(Thousand tonnes)

Item	April-March .		
	1983-84	1984-85 (P)	1985-86 (P)
1	2	3	4
A. Crude Oil			
(a) Production (i+ii)	**26,020**	**28,990**	**30,182**
	(+23.5)	(+11.4)	(+4.1)
(i) On-shore	8,628	8,854	9,359
	(+5.4)	(+2.6)	(+5.7)
(ii) Off-shore	17,392	20,136	20,823
	(+35.1)	(+15.8)	(+3.4)
(b) Imports	**15,967**	**13,642**	**15,100**
	(−5.8)	(−14.6)	(+10.7)
B. Petroleum Refinery Products			
(a) Production	**33,149**	**33,513**	**40,253**
	(+6.1)	(+1.1)	(+20.1)
of which:			
(i) Naphtha	3,578	3,470	4,955
	(+19.8)	(−3.0)	(+42.8)
(ii) Kerosene	3,528	3,364	4,029
	(+4.0)	(−4.6)	(+19.8)
(iii) High Speed Diesel Oil	10,862	11,086	14,627
	(+11.3)	(+2.1)	(+31.9)
(b) Imports	**4,328**	**6,092**	**3,866**
	(−13.9)	(+40.8)	(−36.5)
of which:			
(i) Naphtha	129	338	—
	(+27.7)	(+162.0)	
(ii) Kerosene	2,030	2,611	2,568
	(+7.9)	(+28.6)	(−1.6)
(iii) High Speed Diesel Oil	1,806	2,573	890
	(−30.1)	(+42.5)	(−65.4)

P: Provisional.
Note: Figures in brackets represent percentage variations over the preceding year.
Source: Ministry of Petroleum and Natural Gas.

A spurt in crude oil consumption by 20.5 per cent (in terms of refinery throughput) from 35.6 million tonnes in 1984-85 to 42.9 million tonnes in 1985-86 and relatively lower increase in domestic production (4.1 per cent), necessitated gross imports of crude oil of 15.1 million tonnes in the current year as against 13.6 million tonnes in the preceding year. Certain types of crude oil produced at Bombay High for export registered a substantial decline from 6.5 million tonnes in 1984-85 to 0.5 million tonnes in 1985-86 due to improvement in domestic re-

fining capacity. Consequently, net crude oil imports increased more steeply to 14.6 million tonnes in 1985-86.

Output of petroleum refinery products in 1985-86, registered a sharp increase of 6.7 million tonnes (20.1 per cent) to 40.3 million tonnes from 33.5 million tonnes in 1984-85 mainly due to commissioning of new production capacities during the year. Category-wise, during the year, production of Naphtha registered an increase of 42.8 per cent, Kerosene 19.8 per cent and that of High Speed Diesel (HSD) Oil 31.9 per cent in contrast to the declines of 3.0 per cent, 4.6 per cent and a nominal rise of 2.1 per cent, respectively, in the preceding year. With the completion/commissioning of expansion programme in 4 refineries, the refining capacity in the country reached 45.6 million tonnes at the end of 1985. Further, Government is exploring the possibility of setting up two refineries at Karnal and Mangalore in the joint sector. The capacity of the distillation unit at Mathura Refinery is also proposed to be increased from 6.0 million tonnes per annum to 7.5 million tonnes per annum by debottlenecking. Low cost revamping to increase the capacity of the Gujarat Refinery from 7.3 million tonnes per annum to 9.5 million tonnes is also proposed while Lube Base stocks augumentation facilities at the Lube Refinery of Hindustan Petroleum Corporation Ltd. (HPCL) and expansion of the capacity of Madras Refineries Ltd.'s Lube Refinery are under consideration.

On account of substantial increase in domestic production of Petroleum, Oil and Lubricants (POL) products in 1985-86, their gross imports registered a sizeable decline of 36.5 per cent in contrast to a rise of 40.8 per cent in the preceding year. Exports of POL products, on the other hand, increased substantially by 122.2 per cent to 2.0 million tonnes in 1985-86 from 0.9 million tonnes in 1984-85 due, mainly, to higher exports of Naphtha. As a result, net imports of POL products declined sharply during the year by 63.5 per cent to 1.9 million tonnes.

Another notable achievement during 1985-86 was the marked improvement in the availability of Liquified Petroleum Gas to 1.3 million tonnes from 1.0 million tonnes in 1984-85, registering a rise of 30.0 per cent over and above the increase of 25.0 per cent in the preceding year. Increasing use of LPG in the domestic sector has resulted in saving of valuable foreign exchange through reduced pressure on kerosene. Gross production of natural gas, increased from 7.2 billion cubic metres in 1984-85 to 8.0 billion cubic metres in 1985-86; however, its utilisation was still low at about 61.2 per cent of the gross production. For the year 1986-87, gross production of natural gas has been targeted at a lower level of 7.8 billion cubic metres.

Petroleum Conservation Research Association (PCRA) intensified its thrust for conservation of petroleum products in industrial,transport, agricultural and domestic sectors. PCRA has made a significant impact on consumers in the various target groups by arranging field studies, by undertaking education campaigns and through research and development activities, information dissemination programmes, exhibitions and press campaigns. In the Sixth Five Year Plan, PCRA could achieve a total saving of Rs.400 crores while in the Seventh Five Year Plan, the savings are expected to be the order of Rs.650 crores.

Keeping in view the need to check the rapid growth in the consumption of energy, particularly crude oil and gas, the growing share of oil and gas in commercial energy consumption, the need to restrain rise in imports of POL and also the need to raise resources for financing plans, the Government increased the basic prices of few petroleum products with effect from February 1, 1986. The price of Motor Spirit (MS) was increased by 7.9 per cent, HSD oil by 6.0 per cent, kerosene by 12.3 per cent, aviation turbine fuel (for domestic aviation only) by 10.5 per cent and LPG (domestic) by 23.1 per cent. However, with a view to providing relief to the vulnerable sections of the society and to help farming and other communities, Government reduced the price of MS by Rs.100/KL; HSD oil Rs.72/KL; LPG (domes-

tic) Rs.280/MT and kerosene by Rs.90/KL with effect from February 6, 1986. Even after the rise in prices there will still be a subsidy on kerosene oil (Rs.0.71 per litre) and LPG (Rs.13.05 per cylinder).

B. Capital Goods Industries

(a) Engineering Industries

The composite production index of engineering industry having a weight of 31.65 per cent (adjusted weight) in the general index of industrial production recorded an increase of 5.7 per cent during the year 1985-86 as compared with the increase of 5.2 per cent in the preceding year. The performance of engineering industry during 1985-86 would have been still better but for growing incidence of sickness, shortfall in the availability of infrastructure inputs particularly power and sluggishness in demand in certain sectors.

Exports (in value terms) of engineering goods during the year 1985-86 recorded a further decline of 13.0 per cent over and above the decline of 2.8 per cent during the previous year. Among the four major groups of commodities, while exports of capital goods declined during the last two years, the exports of iron and steel products, non-ferrous metals and consumer durables declined during 1985-86 in contrast to increases achieved during 1984-85. Exports suffered a set back due mainly to slowing down of construction activities in the Middle East, payment problems faced by most of the African countries, Iran-Iraq war and disturbances in Sri Lanka.

The performance of the selected engineering industries is reviewed briefly under three broad heads, viz., (i) heavy mechanical engineering, (ii) light mechanical engineering and (iii) electrical engineering industries.

(i) Heavy Mechanical Engineering Industries

Under this group, output of *automobile industry* recorded a lower increase of 11.8 per cent during 1985-86, compared with an increase of 23.9 per cent in 1984-85 (Table IV-16). This deceleration in the growth rate was mainly due to lower growth rates in the production of *passenger cars* (18.1 per cent in 1985-86 as against 58.5 per cent in the previous year) and *commercial vehicles* (6.4 per cent as against 9.5 per cent). Production of *jeeps and land-rovers*, however, recorded a higher rise of 13.9 per cent this year as against 8.6 per cent last year. The deceleration in the production of commercial vehicles was the consequence of a mis-match between production and sales of commercial vehicles. Production had to be cut down by the end of 1985 in view of large accumulation of inventories. Improvement in the handling of freight traffic by railways during the year also aided this trend. To assist the industry, therefore, the Government took various measures such as permitting the unit to change its product-mix to suit market demand, inducing units to produce fuel-efficient vehicles, adoption of new technology, etc. The Bank and the Industrial Development Bank of India (IDBI) also liberalised credit norms for transport operators and State Road Transport Undertakings. The deceleration in growth rate of production of passenger cars was on account of higher growth in the base year. Production of *scooters* increased substantially (an increase of 48.6 per cent on top of an increase of 14.9 per cent last year) due mainly to the rapidly rising demand for this mode of transport which is looked upon as most economical and reliable means of transport. In addition, many new units have entered this field. Production of *diesel engines* (stationary) registered a lower increase of 8.0 per cent compared with 9.1 per cent in 1984-85 due to licensing bottlenecks and production inflexibility. For removing these constraints, the Government announced a policy of broad-banding for this industry permitting it greater flexibility in output. The Government has also delicensed the industry from MRTP and FERA provisions provided units are set-up in centrally declared backward areas. Although production of *railway wagons* has increased marginally during the year, the industry has not shown any sign of improvement in production on account of inadequate orders by railways over the years.

Table IV-16 : Output of Selected Heavy Mechanical Engineering Industries

Item	Unit	April-March		
		1983-84	1984-85(P)	1985-86(P)
1	2	3	4	5
1. Automobiles (i+ii+iii)	'000 Nos.	158.4	196.2	219.3
		(+4.6)	(+23.9)	(+11.8)
(i) Passenger Cars	"	46.8	74.2	87.6
		(+7.3)	(+58.5)	(+18.1)
(ii) Commercial Vehicles (Buses and Trucks)	"	88.4	96.8	103.0
		(+2.8)	(+9.5)	(+6.4)
(iii) Jeeps and Land-rovers	"	23.2	25.2	28.7
		(+6.4)	(+8.6)	(+13.9)
2. Scooters	"	280.4	322.2	478.7
		(+5.9)	(+14.9)	(+48.6)
3. Light, Medium and Heavy Structurals	'000 Tonnes	126.8	126.2	132.1
		(−2.9)	(−0.5)	(+4.7)
4. Steel Castings	"	87.4	86.7	93.0
		(−0.3)	(−0.8)	(+7.3)
5. Diesel Engines (Stationary)	'000 Nos.	156.1	170.3	183.9
		(−0.3)	(+9.1)	(+8.0)
6. Railway Wagons (in terms of 4 wheelers)	"	17.36	13.00	13.10
		(+13.1)	(−25.1)	(+0.8)
7. Road Rollers	Nos.	449	443	750
		(−51.5)	(−1.3)	(+69.3)
8. Machine Tools	Rs.Crores	269.7	302.8	291.4
		(−0.1)	(+12.3)	(−3.8)

P: Provisional.
Note: Figures in brackets represent percentage variations over the preceding year.
Sources: Central Statistical Organisation and Directorate General of Technical Development.

(ii) Light Mechanical Engineering Industries

Among the selected light mechanical engineering industries (Table IV-17), production of *typewriters* recorded a lower increase of 4.9 per cent compared with 9.5 per cent last year mainly on account of fall in demand for portable typewriters and switching over to the use of electronic typewriters. The Government, however, has approved additional capacities for existing typewriter manufacturers for electronic typewriters and extended broadbanding facility to the typewriter industry from June 1985 onwards. This would provide the industry as a whole flexibility in the manufacture of typewriters according to market demand. There are at present seven units in the organised sector with an installed capacity of 166 thousand numbers. In addition, a capacity of 112 thousand numbers per annum for electronic typewriters has been approved in small scale sector. Production of *bicycles* declined by 5.8 per cent during the year mainly on account of continued slump in demand and excess capacity. Production of *sewing machines* recorded a further deline of 12.1 per cent on top of a moderate fall of 1.0 per cent in 1984-85, largely on account of competition from the small scale sector. Consequent to the rise in demand for ready-made garments and to create additional capacity for manufacture of industrial sewing machines including those required by leather goods manufacturers, the industry was delicensed in March 1985.

Table IV-17: Output of Selected Light Mechanical Engineering Industries

Item	Unit	April-March		
		1983-84	1984-85(P)	1985-86(P)
1	2	3	4	5
1. Typewriters	'000 Nos.	105.8	115.8	121.5
		(−9.8)	(+9.5)	(+4.9)
2. Bicycles	"	5,895.2	5,892.5	5,552.6
		(+23.3)	(−)	(−5.8)
3. Sewing Machines	"	334.8	331.4	291.4
		(+8.3)	(−1.0)	(−12.1)
4. Hurricane Lanterns	"	1,227	1,284	1,298
		(−1.8)	(+4.6)	(+1.1)
5. Razor Blades	Million Nos.	1,956	1,901	2,040
		(+10.5)	(−2.8)	(+7.3)

P: Provisional.
Note: Figures in brackets indicate percentage variations over the preceding year.
Source: Central Statistical Organisation.

(iii) Electrical Engineering Industries.

Except *radio receivers* and *electrical lamps (GLS and others)*, output of all the other light electrical engineering goods recorded increases during 1985-86 (Table IV-18). Output of *domestic refrigerators*, *dry cells* and *fluorescent lamps* recorded lower increases of 11.5 per cent, 3.5 per cent and 5.4 per cent during the year compared with increases of 19.1 per cent, 11.1 per cent and 14.8 per cent, respectively, during 1984-85. Production of *electric fans* registered a higher increase of 8.1 per cent compared with an increase of 3.1 per cent during last year mainly due to the entry of some new units in this field. Output of *storage batteries* recorded a rise of 11.6 per cent as against a fall of 0.6 per cent in the preceding year. Continuous fall in the production of radio receivers during the last few years may be ascribed to shifting of the large portion of production of this item from organised sector to small scale sector.

Among selected heavy electrical engineering industries, output of *power transformers* and *electrical motors* increased by 7.3 per cent and 6.3 per cent, respectively, during the year 1985-86 compared with a higher rise of 9.7 per cent in the case of the former and a decline of 7.8 per cent in the case of the latter during the previous year.

(iv) Electronics Industry

During 1985-86, electronics industry made significant progress. The major thrust areas in this field were colour T.V. sets, mini computer/micro processor based systems, electronic typewriters, electronic T.V. tuners, etc. The new area in which small scale sector entered was the field of communication equipment. In the field of consumer electronics, production of the small scale sector accounts for nearly 70 per cent of the total production. The significant growth during the year was in the production of colour T.V. sets. About 60 small scale units contributed to production of about 3.90 lakh colour T.V. sets. In all, 390 approvals have been granted during the year for producing consumer electronic goods. The main areas of contribution have been the mini computers/micro processor based system, electronic instruments, etc. The contribution of the small scale sector in total production ranged between 55 and 60 per cent. For this purpose, more than 100 approvals were granted in the small scale sector. Though the major thrust area in the computer field has been the manufacture of home/personal computer, permission is grant-

INDUSTRIAL PRODUCTION

Table IV-18: Output of Selected Electrical Engineering Industries

Item	Unit	April-March		
		1983-84	1984-85(P)	1985-86(P)
1	2	3	4	5
A. Light Electrical Engineering				
1. Electrical Lamps				
(i) GLS and Others	Million Nos.	275.1	276.6	270.7
		(+1.4)	(+0.5)	(−2.1)
(ii) Fluorescent	"	35.2	40.4	42.6
		(+6.0)	(+14.8)	(+5.4)
2. Electric Fans	'000 Nos.	4,666	4,810	5,200
		(+13.8)	(+3.1)	(+8.1)
3. Radio Receivers	"	1,286.0	1,199.4	1,161.3
		(−8.8)	(−6.7)	(−3.2)
4. Storage Batteries	"	2,002	1,990	2,221
		(+5.8)	(−0.6)	(+11.6)
5. Dry Cells (Excluding graphite electrodes and anodes)	Million Nos.	1,033.6	1,148.3	1,188.6
		(−7.3)	(+11.1)	(+3.5)
6. Domestic Refrigerators	'000 Nos.	483.3	575.8	642.3
		(+26.9)	(+19.1)	(+11.5)
B. Heavy Electrical Engineering				
1. Power Transformers	'000 KVA	23,140	25,390	27,250
		(+24.4)	(+9.7)	(+7.3)
2. Electric Motors	'000 HP	5,350	4,940	5,250
		(+11.4)	(−7.8)	(+6.3)

P: - Provisional.

Note: Figures in brackets represent percentage variations over the preceding year.
Source: Central Statistical Organisation.

ed even to produce high technology products. In the area of electronic components, the share of small scale sector was between 30 and 35 per cent. Approvals to 92 units were granted in small scale sector to manufacture items like printing circuit board, tape deck mechanism, etc.

Keeping in view the need for rapid progress of electronic industry in the country, the Government further liberalised the import of electronic components in the current import policy by putting them under Open General Licence (OGL) and removed restrictions on the import of many other electronic components and raw materials. Further liberalisation was granted through concessional rate of import duty on raw materials and electronic components used in the manufacture of electronic end-products. Import entitlement of raw materials/components was enhanced from Rs.50 thousand to Rs.5 lakhs in the current year. Further, to reduce delay in the processing of import applications for capital goods and raw materials, regional licensing authorities were authorised to process these cases on their own without referring them to the office of the Chief Controller of Imports and Exports (CCI&E).

(b) Metallurgical Industries (Other than Iron and Steel)

Production of non-ferrous metals witnessed again a mixed trend in 1985-86 (April-March) as in 1984-85. Production of *aluminium* after recording a significant increase of 25.7 per cent to 276.5 thousand tonnes in 1984-85 declined by 9.0 per cent to 251.5 thousand tonnes in 1985-86 (Table IV−19), much below the targeted production of 266.0 thousand tonnes for the year. Power is the most critical input for the manu-

facture of aluminium, constituting about 40 per cent of the cost of production. Inadequate and erratic power supplies therefore are often the major constraints in achieving optimum utilisation of existing capacities. During 1985-86, initially for few months, Indian Aluminium Co. Ltd.'s (INDAL's) smelters at Belgaum (Karnataka) and Hirakud (Orissa), were subjected to severe power cuts ranging between 88 per cent to 100 per cent leading to underutilisation of capacity. The average capacity utilisation in the industry declined to 69.4 per cent in 1985-86 from a level of 76.3 per cent in the previous year. Realising the power situation in the country and in order to ensure adequate power supply, the Bharat Aluminium Co. Ltd. (BALCO) and National Aluminium Co. Ltd. (NALCO) are reportedly setting up their own captive power plants.

Table IV-19: Production of Non-ferrous Metals

(Thousand tonnes)

Item	April-March		
	1983-84	1984-85 (P)	1985-86 (P)
1	2	3	4
Virgin Metals			
1. Aluminium	219.9	276.5	251.5
	(+5.2)	(+25.7)	(−9.0)
2. Copper	29.2	33.5	29.7
	(+3.5)	(+14.7)	(−11.3)
3. Lead	15.4	14.2	17.1
	(+4.1)	(−7.8)	(+20.4)
4. Zinc	60.3	57.6	73.0
	(+16.0)	(−4.5)	(+26.7)
Semi-manufactures			
1. Aluminium			
a. Sheets and Circles-Rolled Products	63.4	73.4	84.3
	(+12.8)	(+15.8)	(+14.9)
b. Wire Rods for Aluminium Conductor Steel Reinforced (ACSR)	12.5	18.0	17.2
	(−14.4)	(+44.0)	(−4.4)
2. Copper Sheets and Circles-Rolled Products 3. Brass Sheets and Circles-Rolled products	15.5	15.7	14.5
	(+11.5)	(+1.3)	(−7.6)

P: Provisional.

Note: Figures in brackets indicate percentage variations over the preceding year.
Source: D.G.T.D.

The domestic demand for aluminium is estimated to increase to 338 thousand tonnes in 1985-86 from a level of 321.7 thousand tonnes in the previous year. However, in view of the lower production of 251.5 thousand tonnes in 1985-86, the gap between demand and supply had to be met through imports. With the commencement of production in the first phase of NALCO in early 1987, it is expected that there will be hardly any demand-supply gap for aluminium in 1987-88.

A High Power Action Group under the Chairmanship of Secretary (Mines) has been constituted with representatives from Department of Revenue, State Transport Corporation, Aluminium Industry, Planning Commission and Research Institutions for suggesting measures to promote the use of aluminium in the transport sector, to identify R & D requirements and to specify fiscal incentives, etc.

The production of *copper (virgin)* by the operating units of Hindustan Copper Limited (HCL) too suffered a decline of 11.3 per cent to 29.7 thousand tonnes in 1985-86 as compared to 33.5 thousand tonnes in 1984-85. However, production failed to touch the target of 33.0

thousand tonnes for 1985-86 mainly because of the shut down of Khetri Copper Complex (KCC) Smelter for 69 days and Indian Copper Complex (ICC) Smelter for 46 days for major overhaul, maintenance and modification work. This resulted in the actual operation of plants for less than ten months. With improvement and modernisation of smelters and refineries the present installed capacity of 39.6 thousand tonnes of refined metal is expected to reach 47.5 thousand tonnes during the Seventh Plan period.

Governments' sanction has been accorded to Hindustan Copper Limited (HCL) for the implementation of scheme of (a) debottlenecking/modernisation of the Smelter and refinery at KCC for stabilising production of refined copper of 31 thousand tonnes per annum and (b) modernisation/debottlenecking of Smelter, modernisation of South Bank Concentrator and setting up of tailings disposal system, expansion of refinery system to 16.5 thousand tonnes per annum and by-product recovery plant at ICC, Ghatsila (Bihar) during the Seventh Plan.

Production of *lead* in 1985-86 at 17.1 thousand tonnes though lower than the target of 23.2 thousand tonnes, registered an impressive increase of 20.4 per cent as against a fall of 7.8 per cent last year. The production of *zinc* too from the two units, viz., Hindustan Zinc Limited (HZL) and Cominco Binani Zinc Limited (CBZL), in 1985-86 increased rapidly by 26.7 per cent to 73.0 thousand tonnes as against a fall of 4.5 per cent last year. At present the indigenous production of lead and zinc is not sufficient to meet the demand and the gap will continue to be bridged through import during the Seventh Plan.

C. Intermediate Goods Industries

(a) Jute Textiles

Output of jute textiles at 13.52 lakh tonnes during the year 1985-86 recorded a decline of 1.3 per cent in contrast to a substantial increase of 25.8 per cent in 1984-85 (Table IV–20).

The decline in the production of jute goods during the year may be attributed to setback in output during the period May-July 1985 due to acute shortage of raw jute in the country leading to an abnormal increase in jute prices and closure of many jute mills. With the improved availability of raw jute at low prices due to an all time record crop in 1985-86 and gradual reopening of many closed mills, the production of jute goods started picking up from October 1985 onwards and eventually recorded significant improvement in output during the period October-March 1985-86 as compared to the trend during the corresponding period of last year.

Category-wise, the output of hessian, carpet backing and other goods at 310.8 thousand tonnes, 30.5 thousand tonnes and 187.0 thousand tonnes recorded declines of 4.5 per cent, 34.5 per cent and 2.6 per cent in contrast to substantial increases of 43.1 per cent, 53.3 per cent and 11.0 per cent, respectively, during last year. Production of sacking, however, registered an increase of 2.2 per cent during the year over and above a significant rise of 22.4 per cent in the previous year.

Domestic consumption of jute goods during 1985-86 at 10.94 lakh tonnes showed an increase of 5.7 per cent on top of an increase of 9.2 per cent in the preceding year. The increase in domestic demand for jute goods was attributable to increased production of foodgrains and other packageable products resulting in larger procurement of B.Twill jute bags through DGS & D for packing foodgrains, sugar, fertilisers, etc. The large scale use of HDPE/PP bags (synthetic substitutes) for packing of fertilisers, cement, salt, etc. has been adversely affecting demand for new jute bags in the country.

With a fall in the production of jute goods and increase in domestic consumption, the stocks of jute goods with mills declined substantially to 66.8 thousand tonnes at end-March 1986 from 73.7 thousand tonnes at end-March 1985 or by 9.4 per cent. Stocks of two main constructions of jute goods i.e., hessian and sacking,declined by 9.5 per cent and 29.0 per cent,

Table IV-20 : Jute Textiles

(Thousand Tonnes)

Item	Year (April-March)	Hessian	Sacking	Carpet Backing	Others	Total
1	2	3	4	5	6	7
Production	1983-84	227.5	658.1	30.4	172.9	1,088.9
		(−29.7)	(−15.9)	(−45.9)	(−1.4)	(−18.6)
	1984-85(P)	325.5	805.6	46.6	192.0	1,369.7
		(+43.1)	(+22.4)	(+53.3)	(+11.0)	(+25.8)
	1985-86(P)	310.8	823.4	30.5	187.0	1,351.7
		(−4.5)	(+2.2)	(−34.5)	(−2.6)	(−1.3)
Exports	1983-84	157.7	17.3	29.9	28.7	233.6
		(−26.3)	(−51.9)	(−41.8)	(+2.5)	(−29.1)
	1984-85(P)	182.7	24.5	33.6	23.9	264.7
		(+15.9)	(+41.6)	(+12.4)	(−16.7)	(+13.3)
	1985-86(P)	174.3	32.3	20.1	24.6	251.3
		(−4.6)	(+31.8)	(−40.2)	(+2.9)	(−5.1)
Domestic Consumption**	1983-84	106.7	683.4	—	157.1	947.2
		(−10.0)	(−6.6)		(+3.7)	(−5.5)
	1984-85(P)	124.5	739.0	—	171.1	1,034.6
		(+16.7)	(+8.1)		(+8.9)	(+9.2)
	1985-86(P)	131.0	795.7	1.2	166.0	1,093.9
		(+5.2)	(+7.7)		(−3.0)	(+5.7)
Year-end Stocks	1983-84	12.1	14.5	4.0	7.1	37.7
		(−63.8)	(−76.8)	(−60.0)	(−56.2)	(−69.1)
	1984-85(P)	19.0	37.2	6.7	10.8	73.7
		(+57.0)	(+156.6)	(+67.5)	(+52.1)	(+95.5)
	1985-86(P)	17.2	26.4	10.3	12.9	66.8
		(−9.5)	(−29.0)	(+53.7)	(−19.4)	(−9.4)

— Nil. P : Provisional.

** Figures represent despatches from mills for internal consumption.

Note: Figures in brackets represent percentage variations over the preceding year.

Source: Ministry of Commerce (Office of the Jute Commissioner).

respectively. Stocks of carpet backing and other goods, however, increased substantially by 53.7 per cent and 19.4 per cent, respectively.

Exports of jute goods during 1985-86 at 251.3 thousand tonnes declined by 5.1 per cent as against a significant increase of 13.3 per cent during the year 1984-85. Exports suffered the setback during the year mainly on account of competition from Bangladesh and synthetic substitutes. Due to the crash in the prices of petroleum products in world markets the competition from synthetic substitutes stiffened. The delay in the shipments from Calcutta port due to go-slow policy adopted by workers during September-October 1985 further affected the exports of jute goods. Inspite of the continuation of consortium arrangement for export of carpet backing cloth to North America on loss sharing basis with State Trading Corporation, the results in terms of exports have not been encouraging. With a view to promoting exports, the Government took various measures such as continuation of Cash Compensatory Support (CCS) Scheme, extension of the consortium schemes for the export of carpet backing cloth to North America through the State Trading Corporation (STC) on 50:50 loss sharing basis between STC and participating manufacturing mills upto end-March 1987 and encouraging product developments through intensification of research and development efforts by financing identified R and D projects through cess proceeds of Jute Manufacturers'

Development Council (JMDC). It has also been decided to create an Export Price Stabilisation Fund out of JMDC Cess Fund proceeds for sharing of loss in an agreed proportion between JMDC, STC and jute industry in order to compete with Bangladesh in an effective manner for participation in international tenders by offering competitive prices. Further, to make jute goods competitive (price-wise), *vis-a-vis* synthetic bags, the Government of India enhanced import duty on granules used for making synthetic bags as well as imposed excise duty on HDPE tape at Rs.4.05 per kg.

In view of the limitations of increased exports to hard currency markets, the Government has taken steps to promote exports of jute goods to Rupee payment countries, particularly to Soviet Union which alone is absorbing over 50 per cent of the exports.

According to the recommendations of the Expert Group on jute industry appointed by the Government of India, a buffer stock scheme for raw jute came into being with effect from April 1, 1986 with the main objective of reducing price fluctuations in raw jute as well as in jute goods with active participation by the jute mills and on the basis of an agreed loss sharing between industry, JMDC and the Government.

(b) Rubber and Rubber Manufactures

The production of natural rubber during 1985-86 increased to 200.5 thousand tonnes from 186.4 thousand tonnes in 1984-85 recording a higher growth rate of 7.6 per cent, compared with 6.3 per cent in 1984-85 (Table IV-21). The increase in production was due to increase in acreage under tapping as well as improvement in productivity. The average yield per hectare is estimated to have increased to 910 kgs. from 886 kgs. in 1984-85.

Consumption of natural rubber also increased significantly during the year and stood at 235.4 thousand tonnes compared with 217.5 thousand tonnes during 1984-85 achieving a substantial growth rate of 8.2 per cent as against 3.8 per cent during the previous year. The significant growth in the production of automobiles following the liberalised industrial policies adopted by the government particularly broadbanding of licensing capacities constituted the main reason for the increased consumption of natural rubber during the year. The consumption of natural rubber far exceeded its production and therefore the government allowed imports of 38.9 thousand tonnes during the year to supplement domestic production to meet the demand. The year-end stock of natural rubber at 55.4 thousand tonnes showed only a marginal increase of 3.9 thousand tonnes or by 7.6 per cent compared with the stock of 51.5 thousand tonnes a year ago. Realising that the gap between supply and demand is likely to continue in the years to come, the government in February 1986 approved an average buffer stock of 2,500 tonnes of natural rubber for maintaining stable price of the commodity which would be remunerative to the rubber growers and fair to the user industry. The management of the buffer stock scheme has been entrusted to the State Trading Corporation (STC).

The Rubber Board continued to take various measures to enhance the production of natural rubber. Financial and technical aid was granted for new plantation and replantation of rubber. The area planted under the various schemes during 1985-86 was estimated at 15,000 hectares. The Board continued to distribute high yielding plants to the growers to popularise the use of such plants. Financial and technical assistance was also continued to the cooperatives of small holders for improving the processing and marketing of rubber. The Rubber Board also arranged a number of seminars and discussions to disseminate know-how on latest production technology.

Production of synthetic rubber at 34.8 thousand tonnes during 1985-86 recorded a decline of 7.7 per cent in contrast to a substantial increase of 16.7 per cent in 1984-85 when the production was 37.7 thousand tonnes. This deceleration in production was mainly due to the sharp escalation in the cost of production and the inadequate availability of coal and alcohol

Table IV – 21: Rubber

(Thousand tonnes)

Item	April-March		
	1983-84	1984-85(P)	1985-86(P)
1	2	3	4
Production			
Natural	175.3	186.4	200.5
	(+5.7)	(+6.3)	(+7.6)
Synthetic	32.3	37.7	34.8
	(+6.6)	(+16.7)	(−7.7)
Reclaimed	30.7(P)	34.2	37.2
	(+6.6)	(+11.4)	(+8.8)
Imports			
Natural	35.9	37.5	38.9
	(+7.5)	(+4.5)	(+3.7)
Synthetic	30.0(P)	24.0	30.8
	(+59.6)	(−20.0)	(+28.3)
Consumption			
Natural	209.5	217.5	235.4
	(+7.2)	(+3.8)	(+8.2)
Synthetic	62.3	65.4	70.0
	(+25.6)	(+5.0)	(+7.0)
Reclaimed	30.7	34.6	38.2
	(+5.1)	(+12.7)	(+10.4)
Year-end Stocks			
Natural	45.2	51.5	55.4
	(+4.1)	(+13.9)	(+7.6)
Synthetic	9.0	11.6	14.5
	(−42.7)	(+28.9)	(+25.0)
Reclaimed	2.6	2.1	3.1
	(+30.0)	(−19.2)	(+47.6)

P: Provisional.
Note: Figures in brackets represent percentage variations over the preceding year.
Source: Rubber Board, Government of India.

during the year. Consumption of synthetic rubber, on the other hand, showed a large increase of 7.0 per cent to 70.0 thousand tonnes from 65.4 thousand tonnes in 1984-85 when it had recorded an increase of 5.0 per cent. Import of synthetic rubber during the year at 30.8 thousand tonnes was higher by 28.3 per cent in contrast to a fall of 20.0 per cent during the previous year. As a result of comparatively higher imports, the stock of synthetic rubber went up to 14.5 thousand tonnes at the end of 1985-86 from 11.6 thousand tonnes a year ago.

Table IV-22 presents the production trends of selected rubber goods industries for the years 1983-84 to 1985-86. The number of units in the organised sector engaged in the production of rubber goods increased to 121 in 1985-86 from 119 in 1984-85. The total automobile tyre production during 1985-86 recorded an increase of 7.7 per cent and stood at 123.4 lakh numbers compared with that of 114.6 lakh numbers during 1984-85 mainly on account of continued increase in the production of automobiles of all varieties. As a result of this, the tyre units have

attained a degree of self-sufficiency inducing them to shift to more sophisticated technology. Certain export promotion schemes have also been undertaken and approvals for the manufacture of radial tyres have been given to certain manufacturers. On the other hand, the production of auto tubes recorded a fall of 6.5 per cent during 1985-86 in contrast to a significant growth of 83.5 per cent during 1984-85. Production of cycle tyres and tubes also registered marked increases of 16.2 per cent and 20.6 per cent to 362.2 lakh numbers and 206.0 lakh numbers during the year in contrast to the declines of 4.6 per cent and 1.1 per cent, respectively, during 1984-85.

Table IV-22: Production of Tyres, Tubes and Footwear

(Lakh numbers)

Year (April-March)	Automobile Tyres		Automobile Tubes	Cycle Tyres	Cycle Tubes	Rubber Footwear (pairs)
	Total	*of which:* Giant Tyres				
1	2	3	4	5	6	7
1983-84	101.5	45.6	79.9	326.8	172.7	368.2
	(+15.6)	(+6.3)	(+8.3)	(+19.7)	(+37.7)	(−4.0)
1984-85(P)	114.6	46.2	146.6	311.8	170.8	357.6
	(+12.9)	(+1.3)	(+83.5)	(−4.6)	(−1.1)	(−2.9)
1985-86(P)	123.4	47.9	137.0‡	362.2	206.0‡	389.0
	(+7.7)	(+3.7)	(−6.5)	(+16.2)	(+20.6)	(+8.8)

P: Provisional.
‡: Estimated Production.
Note: Figures in brackets represent percentage variations over the preceding year.
Sources: Directorate General of Technical Development, Central Statistical Organisation and Annual Report of Department of Industrial Development.

In sharp contrast to the declines of the past two years, production of rubber footwear has recorded an increase of 8.8 per cent to 389 lakh pairs during 1985-86.

With a view to accelerating the pace of development of the tyre industry during the year, the Government constituted a Development Council for Automobile Tyres and Tubes and a Development Panel for other rubber goods.

(c) Chemicals and Chemical Products

Production of chemicals and chemical products which has a revised weight of 11.01 per cent in the general index of industrial production grew at a lower rate of 5.3 per cent during 1985-86 as compared to a rise of 7.1 per cent recorded last year.

Among selected items in this group, production of *fertilisers (nitrogenous and phosphatic)* showed a smaller rise of 10.9 per cent during the year as compared to a higher growth of 14.1 per cent last year. Although production of *nitrogenous fertilisers (in terms of nutrients)* scaled a peak of 4,328 thousand tonnes during 1985-86, it failed to touch the target of 4,415 thousand tonnes for the year mainly because of curtailment in production in Thal and Hazira plants due to bottlenecks in despatches of fertilizers produced and setbacks in the older and other problem-ridden plants.

Production of *phosphatic fertilisers* at 1,417 thousand tonnes though exceeded the target of 1,319 thousand tonnes set for the year, could record only a lower growth rate of 12.1 per cent as compared to 20.6 per cent last year. Average capacity utilisation of nitrogenous fertilisers plants improved from 76.3 per cent in 1984-85 to 78.6 per cent in 1985-86 while that of phosphatic plants from 80.8 per cent to 83.0 per cent (Table IV-23).

Table IV-23 : Production of Major Chemicals and Chemical Products

(Thousand tonnes)

Item	April-March		
	1983-84	1984-85(P)	1985-86(P)
1	2	3	4
1. Nitrogenous Fertilisers (N Content)	3.491	3.917	4.328
	(+2.0)	(+12.2)	(+10.5)
2. Phosphatic Fertilisers (P_2O_5)	1.048	1.264	1.417
	(+6.9)	(+20.6)	(+12.1)
3. Sulphuric Acid*	2.241	2.726	N.A.
	(−19.3)	(+21.6)	
4. Caustic Soda	646	696	727
	(+12.0)	(+7.7)	(+4.5)
5. Soda Ash	780	812	849
	(+25.6)	(+4.1)	(+4.6)
6. Paints and Varnishes (Organised Sector)	114	129	138
	(+5.6)	(+13.2)	(+7.0)
7. Soaps (Organised Sector)	362	377	368
	(+4.6)	(+4.1)	(−2.4)
8. Synthetic Detergents (Organised Sector)	142	168	193
	(−11.8)	(+18.3)	(+14.9)
9. Drugs and Pharmaceuticals (Rs. crores)			
(i) Bulk Drugs	355	377	416‡
	(+9.2)	(+6.2)	(+10.3)
(ii) Formulations	1.760	1.827	1.945‡
	(+10.0)	(+3.8)	(+6.5)
10. Alcohol (Million litres)+	576	594	N.A.
	(+7.5)	(+3.1)	

*: Data relate to calendar year.

‡: Anticipated/Estimated

+: Data relate to alcohol year, i.e., December-November

N.A.: Not Available

P: Provisional.

Note: Figures in brackets represent percentage variations over the preceding year.

Sources: D.G.T.D. and Department of Chemicals and Petrochemicals, Ministry of Industry, Government of India.

There are at present about 40 fertiliser plants producing a wide range of nitrogenous and complex/phosphatic fertilisers. Besides, there are around 50 smaller units producing single super phosphate and six units producing ammonium sulphate as by-product from steel plants. During the year, a notable development in the fertiliser industry was the commencement of commercial production at Thal and Hazira plants. Fifteen fertiliser projects including new and expansion schemes are, at present, under implementation. These include eight nitrogenous and seven phosphatic fertiliser plants.

Production of *alcohol (industrial)* at 594 million litres, during 1984-85 (December-November) though 3.1 per cent higher than in the preceding year, fell short of demand and in order to make up for the short supply of alcohol, Government permitted duty-free import of alcohol (denatured) by actual users.

Production of *caustic soda* at 727 thousand tonnes registered a lower rate of growth of 4.5 per cent in 1985-86 compared to 7.7 per cent in the previous year. Production of *soda ash*, on the other hand, at 849 thousand tonnes witnessed a higher rate of growth of 4.6 per cent as compared to 4.1 per cent in the previous year.

Production of *soaps* in the organised sector (48 soap manufacturing units with an installed capacity of 351 thousand tonnes) declined by 2.4 per cent from 377 thousand tonnes in 1984-85 to 368 thousand tonnes in 1985-86.

The production of *synthetic detergents* in the organised sector (21 units) increased at a lower rate of 14.9 per cent to 193 thousand tonnes in 1985-86 as compared to a rise of 18.3 per cent last year.

There are at present about 20 units, manufacturing a wide range of paints, enamels and varnishes, registered with the DGTD. The industry is now on its march towards growth and new product development. It is now in a position to meet the requirements of surface coatings of broad spectrum of industries like transport, chemicals, light engineering, electricals, structurals, etc. The production of *paints and varnishes* in the organised sector increased at a relatively lower rate of growth of 7.0 per cent to 138 thousand tonnes as compared to growth of 13.2 per cent last year.

Production (in terms of value) of *bulk drugs and formulations* is estimted to have gone up to Rs.416 crores and Rs.1,945 crores in 1985-86, thereby registering increases of 10.3 per cent and 6.5 per cent, respectively, over the preceding year. About 250 bulk drugs, covering entire gamut of various therapeutic groups are being produced in the country. A notable achievement of the industry during the year was the achievement of self-sufficiency in the production of about 50 bulk drugs, extending over a wide range of therapeutic groups such as antibiotics, sulpha drugs, analgesics, etc. and commencing of commercial production of some new drugs like Nefedipine, Atenolol, Ceptopril, Renitidine and Timolol used in the treatment of cardio-vascular, ulcer and eye diseases.

In order to step up production of drugs in the country, Government took several steps during the year. These included i) delicensing of 94 bulk drugs/drug intermediates and related formulations, in favour of Non-MRTP/Non-FERA Companies, ii) liberalisation of its policy for foreign collaborations, iii) taking up a review of the existing drug policy and iv) providing clearances for use of 35 new drugs in the country.

D. Consumer Goods Industries

(a) Sugar

Sugar production in the country declined sharply in the years 1983-84 and 1984-85 to 59.17 lakh tonnes and 61.43 lakh tonnes, respectively, from 82.30 lakh tonnes in 1982-83. However, consumption during this period increased substantially from 64.81 lakh tonnes in 1982-83 to 80.64 lakh tonnes by 1984-85, which necessitated large imports during 1984-85 and 1985-86. During the 1985-86 season, production is expected to go up by 8.57 lakh tonnes to around 70 lakh tonnes as against 61.43 lakh tonnes during 1984-85. This is attributed to larger availability of sugarcane to the industry as a result of the new sugar policy of higher minimum support price for sugarcane and change in ratio of levy and free sale sugar from 65:35 to 55:45.

Sugar production during the 1985-86 season so far (upto June 30, 1986), amounted to 68.58 lakh tonnes representing an increase of 8.39 lakh tonnes or 13.9 per cent as compared to the production of 60.19 lakh tonnes during the corresponding period last season. Together with

imports of 13.82 lakh tonnes, total availability in 1985-86 (till June) was 98.24 lakh tonnes as against 89.51 lakh tonnes in the corresponding period of the previous year. Total off-take was placed at 60.64 lakh tonnes, comprising of 60.45 lakh tonnes for internal consumption and 0.19 lakh tonnes for exports as against 59.06 lakh tonnes, comprising of 58.92 lakh tonnes for internal consumption and 0.14 lakh tonnes for exports during the same period last season.

The stocks as at end June 1986 at 37.60 lakh tonnes were higher than 30.45 lakh tonnes as at end June 1985. Data on sugar production, consumption, etc. for 1985-86 season upto June 30, 1986 are given in Table IV-24.

Table IV-24: Availability and Consumption of Sugar
(October-September)

(Lakh tonnes)

Items	1981-82	1982-83	1983-84	1984-85	1984-85 (Oct. 1, 1984 to June 30, 1985)	1985-86 (Oct. 1, 1985 to June 30, 1986)
1	2	3	4	5	6	7
1. Opening Stocks	7.77	32.63	45.87	23.74	23.74	15.84*
				(0.94)	(0.94)	(1.84)
2. Production	84.32	82.30	59.17	61.43	60.19	68.58
3. Imports	—	—	0.94	11.87	5.58	13.82
4. Total Supply (1+2+3)	**92.09**	**114.93**	**105.98**	**97.04**	**89.51**	**98.24**
5. Internal consumption	55.31	64.81	75.65	80.64	58.92	60.45
				(10.97)	(4.96)	(14.37)
6. Exports	4.15	4.25	6.59	0.32	0.14	0.19
7. Total off-take (5+6)	59.46	69.06	82.24	80.96	59.06	60.64
8. Closing stock (4−7)	32.63	45.87	23.74	16.08	30.45	37.60
			(0.94)	(1.84)	(1.56)	(1.29)

*: Revised

Note: Figures in brackets relate to imported sugar which has been included in the item.

Source: Indian Sugar Mills' Association.

In order to augment availability of sugar for internal consumption and to keep sugar prices under check, the Government has been importing sugar. Imported sugar was supplied to the public through Public Distribution System and fair price shops. Since June 1985, the Government also started releasing imported sugar in the open market. Initially, 1.25 lakh tonnes were released in the month of June 1985, of which 75,000 tonnes were to be distributed through State Governments and 50,000 tonnes were to be sold by Food Corporation of India through auction/tenders. Subsequently, 1.25 lakh tonnes of imported sugar was released per month for distribution through State Governments at a price below Rs.5.80 per kg., and an additional quantity of 50,000 tonnes for auction by the Food Corporation of India at selected centres in the country. The total quantity of imported sugar released from October 1985 to June 1986 was 14.37 lakh tonnes as against 4.96 lakh tonnes released in the corresponding period of 1984-85.

Following the enhancement of the minimum support price of sugarcane from Rs.14.00 per quintal in 1984-85 to Rs.16.50 per quintal in 1985-86, the ex-factory price of levy sugar (all-India average), [which is worked out on the basis of statutory minimum price of sugarcane announced for the season and on the conversion cost schedule recommended in the Report

of the Bureau of Industrial Costs and Prices (1984)] was enhanced from Rs.346.75 per quintal for 1984-85 season to Rs.391.00 per quintal. As in the past, mills considered weak were to receive an additional Rs.26 per quintal. With the increase in all-India average ex-factory price of levy sugar in 1985-86, the uniform retail price of levy sugar was also raised from Rs.4.40 to Rs.4.80 per kg. with effect from December 1, 1985.

The monthly levy sugar releases were generally maintained at the last year's level of 3.13 lakh tonnes during 1985-86 season except for a few months when additional 50,000 tonnes per month were released as in the previous years to meet the festival demand.

The quantum of monthly free sale releases was, however, somewhat higher as compared to that during the corresponding months of the previous season (Table IV-25).

Table IV-25: Sugar Releases during 1984-85 and 1985-86 seasons

(Lakh tonnes)

Month	1984-85			1985-86		
	Levy	Free sale	Total	Levy	Free sale	Total
October	3.13	3.85	6.98	3.63	4.00	7.63
November	3.13	3.85	6.98	3.63	4.00	7.63
December	3.13	4.35	7.48	3.13	3.75	6.88
January	3.13	3.90	7.03	3.13	3.75	6.88
February	3.13	3.80	6.93	3.13	3.60	6.73
March	3.13	3.80	6.93	3.13	3.50	6.63
April	3.13	3.70	6.83	3.13	4.00	7.13
May	3.13	3.60	6.73	3.13	4.50	7.63
June	3.63	3.75	7.38	3.13	4.50	7.63
July	3.13	3.75	6.88	3.13	4.50	7.63
August	3.63	4.00	7.63	3.13	4.50	7.63
September	3.63	4.00	7.63	3.63	4.50	8.13
Total	**39.06**	**46.35**	**85.41**	**39.06**	**49.10**	**88.16**
Monthly average	3.26	3.90	7.16	3.26	4.09	7.35

In a bid to maximise sugar production during the current sugar season the Union Government decided to give incentives to sugar factories for early crushing of sugarcane. Rebate in excise duty was given on sugar produced during October and November 1985 in excess of the average production during the corresponding period of 1983-84 and 1984-85 seasons. The quantum of rebate in excise duty for levy sugar was Rs.17 a quintal and for free sale sugar Rs.19.45 a quintal. Besides, a rebate of Rs.2.45 a quintal was offered in the additional excise duty levied on levy sugar. In the 1981-82 and 1982-83 seasons also, rebates in excise duty for early crushing of sugarcane had been given at the rate of Rs.24.50 and Rs.19.00 a quintal, for levy sugar and Rs.40 and Rs.31.80 a quintal for free sale sugar.

To ensure regular flow of Khandsari to the markets and to keep the prices at reasonable levels the Government on May 19, 1986 issued an Order under the Sugar (Control) Order 1966, directing manufacturers of Khandsari to de-

clare their stock position as on May 31, 1986 by June 3, 1986 before the District Collector under whose jurisdiction their units are located. It was also stipulated that the stocks thus declared and also those produced thereafter upto the end of September were to be disposed of by end-October 1986. The Khandsari producers were also directed to ensure that the quantities sold and despatched each month between June and September were not less than 20 per cent of the opening stocks for these months. A similar order for Khandsari sugar was last issued on January 23, 1985.

With a view to prevent speculation in the sugar trade, the Maharashtra Government issued an Order on January 9, 1986 amending the Maharashtra Sugar Dealers Licensing Order, 1963, banning the sugar sale transactions between wholesalers not involving physical transfer of sugar. Further, only one transaction involving transfer of sugar from one wholesaler to another wholesaler was permitted under these Orders.

The licensed capacity of the sugar industry as on May 14, 1986 was 87.35 lakh tonnes spread over 396 sugar factories. The installed annual capacity was 75.03 lakh tonnes representing 366 sugar factories. During the crushing season 1985-86, the installed capacity is expected to go up by 5.09 lakh tonnes with the establishment of 30 more new sugar factories and the completion of 61 expansion projects. Thus, the total number of sugar factories installed will be 396 by the end of 1985-86 season.

During 1985-86, a sum of Rs.80 crores was credited to the Sugar Development Fund taking the total amount credited to Rs.291 crores (upto December 31, 1985). Of this, a sum of Rs.12.06 crores has been paid during 1985-86 to sugar mills on account of charges for holding the buffer stock.

The Levy Sugar Price Equalisation Fund was created in 1976 for securing recovery of the excess realisation made by sugar mills under interim Orders of Courts, over and above the prices fixed under the Essential Commodities Act and re-funding the same to rightful claimants. A sum of Rs.0.33 crore has been recovered from the mills and credited to the fund bringing the total amount thus credited to Rs.8.46 crores since the establishment of the fund. In addition, under court orders, the Food Corporation of India collected, by way of recovery, a sum of Rs.11.82 crores. During the year a payment of Rs.8.46 lakhs has been sanctioned from the fund to the Food Corporation of India.

The International Sugar Agreement, 1977 of which India was an exporting member, expired on December 31, 1984. As negotiations for a new International Sugar Agreement (ISA) failed at the United Nations Sugar Conference, a new Agreement viz. International Sugar Agreement, 1984 without economic clauses was evolved for a period of two years from January 1, 1985 to December 31, 1986 to which India has acceded. Under this new agreement, there are no quota restrictions on imports and exports of sugar by the member countries. Members are free to import/export any quantity. In view of this and taking into account the difficult sugar situation in the country — (fall in production and increase in consumption) export of sugar during the years 1984-85 and 1985-86 was restricted to preferential EEC and US quotas; besides, a small quantity of sugar was exported to Nepal and Maldives.

The Sugar policy of partial control with a dual pricing system was continued during the 1985-86 season. However, the ratio of levy and free sale sugar was changed from 65:35 to 55:45 in order to improve the viability of sugar factories as also to enable them to pay competitive cane prices. The main objective of this policy is to provide levy sugar to the consumers at a reasonable price.

The Government after considering the recommendations of the Commission for Agricultural Costs and Prices and the views of the State Governments and those of the representatives of the Sugar Industry and cane growers, raised the statutory minimum price of sugarcane payable by sugar factories during the season 1985-86 to Rs.16.50 per quintal linked to a

basic recovery of 8.5 per cent. Government also announced in advance the statutory minimum price of cane at Rs.17.00 per quintal for the next (1986-87) season.

(b) Textiles – Cotton and Synthetic

The textile industry registered a further improvement in production during the financial year 1985-86. The output of all yarn and all cloth registered higher increases of 5.0 per cent and 4.0 per cent in 1985-86 on top of increases of 4.6 per cent and 2.2 per cent, respectively, in 1984-85. The factors contributing to the higher increase included, the comfortable availability of raw cotton resulting in the reduction of prices and the confidence instilled by the New Textile Policy announced on June 6, 1985.

Under the New Textile Policy, full fibre flexibility between cotton and other man-made fibres has been permitted. The policy of broad-banding has also been extended to synthetic/filament yarn industry and existing units have been permitted to expand capacities to the optimal level.

By the end of March 1986, the number of closed mills increased to 72 from 70 a year ago. The idle capacity of spindles came down from 1.80 millions to 1.77 millions and that of looms from 19,988 to 17,668. Consequently, the number of workers affected also came down from 1.07 lakhs to 0.95 lakhs. During the year, twelve cotton textile mills in Ahmadabad were taken over by the Gujarat Government.

On the other hand, the performance of the textile industry was affected by growing sickness in the industry. Low productivity arising due to substantial backlog of modernisation – most of the machinery is old and obsolete, inadequate generation of internal resources, unskilled labour and intermittent power cuts. With a view to revitalising the textile industry, the Government has set up a national level Standing Advisory Committee (SAC) on modernisation of textile industry for advising the Government on technological upgradation. A modernisation fund of Rs.750 crores has also been set up to facilitate replacement of old and obsolete machinery.

The total production of *yarn* (cotton, blended/mixed yarn and 100 per cent man-made fibre yarn) registered a growth rate of 5.0 per cent during 1985-86 on top of an increase of 4.6 per cent during 1984-85; yarn production during 1985-86 stood at 1,451 million kgs. as against 1,382 million kgs. during 1984-85 (Table IV-26). The strong demand emanating from the handloom and the powerloom sectors led to the increase in production. The production would have been still higher but for the stagnation in the production of blended/mixed yarn and 100 per cent man-made fibre yarn. The stagnation was mainly on account of high prices of viscose staple fibre – a vital raw material for these yarns. The output of cotton yarn rose from 1,183 million kgs. during 1984-85 to 1,253 million kgs. during 1985-86 – a growth rate of 5.9 per cent, which is lower than the increase of 6.4 per cent during 1984-85. Mixed and blended yarn production registered a further decline of 0.8 per cent in 1985-86 over and above the decline of 3.7 per cent in 1984-85. The production of 100 per cent man-made fibre spun yarn remained stagnant at 70 million kgs. during 1985-86.

The domestic consumption of *all yarn* during 1985-86 increased considerably and stood at 1,256 million kgs. as against 1,192 million kgs. during 1984-85 – an increase of 5.4 per cent over and above an increase of 7.5 per cent in 1984-85. The export of cotton yarn during the year at 11 million kgs. registered a further increase of 22.2 per cent on top of an increase of 28.6 per cent in 1984-85. As a result of improved production and a fall in demand for yarn from mill sector, the unsold stocks of yarn at end-March 1986 increased to 31.1 million kgs. from 23.6 million kgs. a year ago – an increase of 31.8 per cent.

The total output of *cloth* (cotton, blended/mixed and 100 per cent man-made fibre fabrics) in the mill and decentralised sectors increased by 4.0 per cent to 12,498 million metres in 1985-86 from 12,014 million metres in 1984-85, when it

Table IV-26 : Production, Consumption and Exports of yarn

(Million Kgs.)

Item	April-March		
	1983-84	1984-85(P)	1985-86(P)
1	2	3	4
A. Production (i+ii+iii)	**1,321**	**1,382**	**1,451**
	(+8.5)	**(+4.6)**	**(+5.0)**
(i) Cotton Yarn	1,112	1,183	1,253
	(+11.3)	(+6.4)	(+5.9)
(ii) Blended/Mixed Yarn	134	129	128
	(−2.2)	(−3.7)	(−0.8)
(iii) 100 per cent Man-made Fibre Spun Yarn	75	70	70
	(−8.5)	(−6.7)	(−)
B. Exports*			
Value (Rs. Crores)	23	36	45
	(+27.8)	(+56.5)	(+25.0)
Quantity	7	9	11
	(+16.7)	(+28.6)	(+22.2)
C. Domestic Consumption (all yarn) (i+ii)	**1,109**	**1,192**	**1,256**
	(+4.6)	**(+7.5)**	**(+5.4)**
(i) Mill Sector‡	411	430	451
	(+14.5)	(+4.6)	(+4.9)
(ii) Decentralised Sector£	698	763	805
	(−0.4)	(+9.3)	(+5.5)
D. Year-end Stocks (Unsold)	**19.5**	**23.6**	**31.1**
	(+8.9)	**(+21.0)**	**(+31.8)**

P : Provisional.
* : Relates to cotton-yarn only.
‡ : Relates to consumption for weaving cloth only.
£ : Excluding diliveries of yarn to hosiery and other purposes.
Notes: 1. Figures of yarn exclude filament yarn.
2. Figures in brackets represent percentage variations over the preceding year.
Sources: Office of the Textile Commissioner and Indian Cotton Mills' Federation.

had increased by 2.2 per cent over 1983-84 (Table IV-27). The improvement in all cloth production was entirely on account of an increase of 6.3 per cent in the production of cloth by decentralised sector. On the other hand, production of organised mill sector both in respect of cotton fabrics as well as blended/mixed fabrics declined during the year.

For the second year in succession, the mill sector's cloth output recorded a decline of 1.6 per cent to 3,376 million metres in 1985-86 from 3,432 million metres in 1984-85, while that of the decentralised sector increased by 6.3 per cent to 9,122 million metres as against 8,582 million metres in 1984-85. During 1985-86, production of cotton fabrics (which forms a major part of the output of both the sectors) increased by 1.5 per cent to 9,178 million metres mainly due to an increase of 2.6 per cent to 6,591 million metres in the case of decentralised sector though it declined in the case of mill sector to 2,587 million metres or by 1.2 per cent. The domestic consumption of cloth recorded an increase of 9.4 per cent to 11,172 million metres during 1985-86 as against a fall of 4.5 per cent during the previous year. The improvement in the off-take could be attributed to the waning effect of the protracted recession faced by the industry so far. As a result of higher off-take of cloth, the unsold stocks of cloth (mill sector) at the end of March 1986 declined by 8.6 per cent

Table IV-27 : Production, Consumption and Exports of Cotton and Man-made Textiles

(Million metres)

Item	April-March		
	1983-84	1984-85(P)	1985-86(P)
1	2	3	4
A. Production (i+ii)	**11,758**	**12,014**	**12,498**
	(+10.8)	**(+2.2)**	**(+4.0)**
(i) Mill Sector (a+b+c)	3,487	3,432	3,376
	(+11.3)	(−1.6)	(−1.6)
(a) Cotton Fabrics	2,704	2,619	2,587
	(+13.0)	(−3.1)	(−1.2)
(b) Blended/Mixed Fabrics	779	808	783
	(+6.3)	(+3.7)	(−3.1)
(c) 100 per cent Man-made Fibre Fabrics	4	5	6
	(−33.3)	(+25.0)	(+20.0)
(ii) Decentralised Sector (a+b+c)	8,271	8,582	9,122
	(+10.5)	(+3.8)	(+6.3)
(a) Cotton Fabrics	6,037	6,421	6,591
	(+8.6)	(+6.4)	(+2.6)
(b) Blended/Mixed Fabrics	485	470	554
	(−13.4)	(−3.1)	(+17.9)
(c) 100 per cent Man-made Fibre Fabrics	1,749	1,691	1,977
	(+28.4)	(−3.3)	(+16.9)
B. Exports* (Rs. Crores)	**1,199**	**1,599**	**1,724**
	(+13.6)	**(+33.4)**	**(+7.8)**
C. Domestic Consumption (all cloth) ‡	**10,688**	**10,212**	**11,172**
	(+9.4)	**(−4.5)**	**(+9.4)**
D. Year-end Stocks (unsold) (all cloth) †	**216**	**175**	**160**
	(+61.2)	**(−19.0)**	**(−8.6)**

P : Provisional.
* : Includes Cotton Textiles, Handloom Textiles, Ready-made Garments, Man-made Textiles, etc.
‡ : Relates to total availability.
† : Relates to mill sector only.
Note: Figures in brackets represent percentage variations over the preceding year.
Sources: Office of the Textile Commissioner and Indian Cotton Mills' Federation.

to 160 million metres from 175 million metres a year ago.

The total value of exports of all textiles including cotton textiles, handloom textiles, readymade garments, knit wear etc. increased by 7.8 per cent to Rs.1,724 crores in 1985-86 from Rs.1,599 crores in 1984-85 when exports of cloth had gone up by 33.4 per cent over 1983-84. The main reasons for the low growth rate could be, the slowdown in the rate of economic growth in developed countries, progressive reduction in international prices of commodities and persistent protectionist tendencies in developed countries. The Government, however, has been assisting the industry to boost exports by taking various steps like providing assistance through Cash Compensatory Support (CCS) Scheme for export of many textile items, putting number of items of garment manufacturing machinery on OGL list to help modernisation and establishing 100 per cent export-oriented units. Various export promotion councils also took export promotion measures relating to specific textile products. In addition, the new textile policy has tried to bring about liberalisation of trade in textiles removing the external constraints on exports.

Despite all these measures, however, the growth of 8 per cent in exports of textiles does not appear to be encouraging. Exports of cotton fabrics during 1985-86 at Rs.329.5 crores were lower by 3.7 per cent than in 1984-85, whereas exports of readymade garments including hosiery/knitwear of all varieties at Rs.1,096 crores recorded a substantial increase of 15.6 per cent. However, concerted efforts are needed to augment the exports particularly of readymade garments by tapping new markets and also to existing markets by promotional activities like market studies, participating in international fairs and exhibitions, buyer-seller meets, etc. It is expected that the steps taken, such as the new textile policy, export-import policy for three years, liberalisation of excise and customs duties, assistance to the industry for modernisation and adoption of new technology, etc. will help exports of textiles in the coming years.

Performance of the textile mills managed by the National Textile Corporation (NTC) is presented in Table IV-28. It would be observed from the table that output of yarn and cloth by the NTC mills registered higher increases in 1985-86 compared to last year and consequently the capacity utilisation ratio also increased. However, capacity utilisation was affected to some extent by power problems including load shedding, market recession, strikes and disturbed working in some of the mills and slow pace of modernisation.

Despite improvement in production, the despatches of cloth for internal sales as well as for exports failed to show any improvement. Internal sales in terms of quantity registered decline in the two successive years. The exports also registered a significant decline of 18.9 per cent in contrast to a high growth of 156.1 per cent in 1984-85.

Table IV-28: Performance of Mills managed by National Textile Corporation

Particulars	Unit	1984-85(P)	1985-86(P)
Number of Mills		125	125
Installed capacity			
(a) Spindles	Lakh Nos.	41.26	41.32
(b) Looms	Th. Nos.	59.90	59.06
Production			
(a) Yarn	Mill. Kgs.	74.0	82.5
		(+5.7)	(+11.5)
(b) Cloth	Mill. Metres	920.0	995.0
		(+2.0)	(+8.2)
Despatches of cloth*			
(a) Internal Sales			
1. Quantity	Mill. Metres	810.7	744.3
		(−0.6)	(−8.2)
2. Value	Rs.Crores	440	461
		(+10.8)	(+4.8)
(b) Exports			
1. Quantity	Mill. Metres	46.1	37.4
		(+156.1)	(−18.9)
2. Value	Rs.Crores	26	24
		(+160.0)	(−7.7)
Capacity utilisation			
(a) Spinning	Per cent	67.7	74.1
(b) Weaving	Per cent	69.0	73.1

P : Provisional.
* : Relates to Nationalised mills only.
Note: Figures in brackets represent percentage variations over the corresponding period of the previous year.
Source: National Textile Corporation.

In order to make available blended cloth at reasonable price to the consumers in the country, the Government has formulated a scheme of production of 'Sulabh' cloth with duty free fibre and sale at approved prices. Accordingly, production of polyester-cotton shirting and trouser cloth has been undertaken by NTC mills. The NTC mills propose to increase production of 'Sulabh' fabrics from the present level of 24 million metres to 50 million metres in 1986-87.

The production of controlled cloth is being done both by the NTC mills and the handloom sector mainly to cater to the needs of weaker sections of the society. A production target of 280 million square metres of controlled cloth had been fixed for NTC mills for 1985-86. Against this obligation, NTC produced about 255 million square metres of cotton varieties and about 8 million metres of polyester cotton shirting in 1985-86. The scheme orginally included dhoties, sarees and lungies, but during 1984-85 the scheme was enlarged to include shirting and long-cloth also. As per the new textile policy, the production of controlled (Janata) cloth will be phased out gradually from NTC and the share of the handloom sector will be increased and by the end of the Seventh Plan (i.e. 1989-90), the entire quantity of controlled cloth is planned to be produced in the handloom sector and a target of 700 million square metres has been fixed for that year.

NTC (including all its subsidiaries) suffered a loss of Rs.128.80 crores during the year 1985-86 as against a net loss of Rs.172.4 crores in 1984-85 bringing the total loss since its inception in 1974 to Rs.748.1 crores. This was mainly due to the increases in prices of cotton, power problems and load shedding, increase in the cost of power, coal, chemicals, spares, etc., market recession, old and obsolete machinery, excess labour force and strike and disturbed working in some mills. However, according to NTC only 43 out of 125 mills have shown profits during the year under review.

Two main problems faced by NTC are obsolete machinery and excess labour. In order to update the technology, NTC has drawn up a corporate plan and has spent a total amount of Rs.336 crores till March 31, 1986 on rehabilitation/modernisation. With a view to reducing the excess labour force, a "Labour Rationalisation Scheme" was introduced in NTC mills. The scheme was purely voluntary in nature and was implemented with the consent of the trade unions. In addition, NTC has taken some steps such as establishment of captive power plants to tide over power shortage, improvement in product-mix and introduction of more polyester blends, strict control and supervision over operations and better management.

In order to preserve the unique role of handloom and enable them to realise their full potential, as also to ensure higher earning for handloom weavers, the textile policy envisages cooperativisation and modernisation and provides for adequate availability of raw materials at reasonable prices through the National Handloom Development Corporation. The production of blended fabrics would also be encouraged. The handloom sector would also receive protection in the form of reservation of items to improve competitiveness of handloom and remove the cost handicap *vis-a-vis* powerloom sector. Further, with a view to making available adequate quantity of yarn to the handloom sector, the Government has stipulated the operation of hank yarn scheme, which makes it compulsory for all mills to pack in hank forms at least 50 per of yarn for civil deliveries and of the yarn so packed, 85 per cent should be in counts of 40s and below. Steps will be taken to improve the marketing facilities and technical skills of the weavers as well. A contributory thrift fund scheme and workshed-cum-housing scheme would also be provided to improve the working conditions of the handloom weavers and provide direct benefits to them. The Government has declared the year 1986-87 as the "year for handlooms modernisation".

The Government, through the textile policy announcement of June 6, 1985, has attempted to remove the structural rigidities by evolving an integrated view of the industry. The policy

further provides the industry (a) a fuller flexibility in the use of various fibres, (b) creation/contraction of capacities to realise economies of scale to increase competition, (c) availability of raw materials at reasonable prices, (d) increase in the production of cloth of acceptable quality at reasonable prices to meet growing demand, (e) augmentation of infrastructural facilities and distribution of yarn, (f) rationalisation of fiscal levies and (g) pursuit of objectives like increase in employment, exports, etc.

The Government also announced several fiscal concessions to accelerate production of textiles. On August 28, 1985, the Government reduced excise duty on polyester fibre by 50 per cent. Import duty on viscose staple fibre was increased from 40 per cent to 60 per cent *ad valorem* for assisting domestic industry. Further, the long-term fiscal policy announced by the Government envisaged that the industrial units be allowed to deposit with the IDBI 20 per cent of the pre-tax profits for purchase of equipment and machinery. In recognition of the unique role of handloom, the polyester-blended yarn supplied to them will be exempted from excise duty.

(c) Paper, Paper Boards and Newsprint

i) Paper and Paper Boards

Though the production of paper and paper boards increased from 13.76 lakh tonnes during 1984-85 to 15.17 lakh tonnes during 1985-86 (April-March), the growth rate stagnated around 10.2 per cent recorded in 1984-85 (Table IV-29). Several paper mills have become sick and some had to be closed down. Till the end of March 1986, five integrated units and 63 small units were closed down. Some of the integrated units have been working with old machinery and obsolete technology. Of the total capacity of 24.10 lakh tonnes, little less than 50 per cent or 11.73 lakh tonnes is in the integrated sector. Of this, as much as 9.73 lakh tonnes of capacity is overaged, being more than 50 years old. It is paradoxical that while capacity utilisation for the industry as a whole has been continuously showing downward trend over the past few years, the production levels in absolute terms have been on the increase. This is largely due to additional capacity created by numerous small paper mills over the years with majority of them having large underutilised capacity. Further, significant proportion of additional capacity established in the last few years is yet to stabilise and achieve an optimum level of production. The industry is also beset with some problems like shortages of power and coal, scarcity of conventional raw materials, increasing costs on acount of transport and freight and lower than anticipated increase in demand. The Paper Control Order of 1974 under which the industry is required to give about 25 per cent of its writing paper production to the Government at concessional rate implies a loss to the industry as it is below the cost price. Despite these, there has been an increase in production over the years mainly on account of addition to capacity.

In order to alleviate the difficulties faced by the industry and to increase production, the Government has initiated during the year some measures such as preparation of schemes for the revival of some old mills by modernisation and change in technology ensuring adequate availability of raw materials, liberalising imports of waste paper and wood pulp by putting them under OGL and exemption from customs duty for these raw materials. The policy of broadbanding extended to the paper industry (referred to in the last year's Report) is expected to assist the industry to a large extent in increasing production, but some time has to elapse before the results become visible.

There were 252 production units with an installed capacity of 21.70 lakh tonnes at the end of 1984-85, while the industry comprised 267 production units with a combined installed capacity of 24.10 lakh tonnes at the end of 1985-86. The capacity utilisation ratio for 1985-86, however, declined to 66.2 per cent from 67.4 per cent for 1984-85, largely as a result of a faster build-up of installed capacity by the set-

Table IV-29: Paper, Paper Boards and Newsprint

(Thousand tonnes)

Year (April-March)	No. of Units	Installed Capacity	Production	Capacity Utilisation Ratio (per cent)
1	2	3	4	5
A. Paper and paper boards				
1983-84	220	1,915	1,248 (+3.6)	65.2
1984-85 (P)	252	2,170	1,376 (+10.3)	67.4
1985-86 (P)	267	2,410	1,517 (+10.2)	66.2
B. Newsprint				
1983-84	3	223	176 (+45.5)	79.1
1984-85(P)	3	223	201 (+14.2)	90.4
1985-86(P)	4	273	241 (+19.9)	97.3

P : Provisional.
Note: Figures in brackets represent percentage variations over the preceeding year.
Sources: Indian Paper Mills' Association and
Department of Industrial Development, Ministry of Industry, Government of India.

ting up of several small and medium sized paper plants which are operatively less efficient than the larger plants. Further, many of the paper mills are facing financial problems mainly on account of continuous increase in the production costs which compel them to utilise their production capacities moderately.

There has been considerable dispersal of productive activity in the paper industry. The giant Hindustan Paper Corporation (HPC) with its newsprint plant in Kerala, writing and printing paper mills in Assam and Nagaland and Mandya National Paper Mills is expected to add about 3 lakh tonnes of writing and printing paper and 80 thousand tonnes of newsprint to India's annual paper and newsprint production. India's first Bagasse-based newsprint plant which was established at Pagalur in Tamil Nadu with an installed capacity of 50 thousand tonnes of newsprint and 40 thousand tonnes of writing and printing paper per annum started commercial production of newprint from April 1985. Nowgong Paper Project is a new addition and Cachar Paper Project is expected to go on stream in 1986.

(ii) Newsprint

During the year under review, the 4 units in the country produced 2.41 lakh tonnes of newsprint. This represented an increase of 19.9 per cent over the 1984-85 level of production viz., 2.01 lakh tonnes. The rate of growth of production was much faster during 1985-86. As a result, capacity utilisation ratio also rose from 90.4 per cent in 1984-85 to 97.3 per cent in 1985-86. Despite this exemplary performance, imports of newsprint has been necessary to supplement the domestic production. This situation is not likely to change for quite some time to come

even inspite of the expected increase in installed capacity and consequent spurt in production. This is all the more so because demand for newsprint is nearly twice that of domestic production. To meet the shortfall in domestic production, imports of about 2.15 lakh tonnes of newsprint were arranged during the year.

In order to meet the growing demand for newsprint, sixteen letters of intent have been issued for a total capacity of 7.46 lakh tonnes. Though all of them may not fructify, even if half of the envisaged capacity materialises, it would mean a substantial addition to the capacity during the Seventh Plan.

Chapter V

Price Trends and Price Policy

Price Trends: *The Main Features*

A welcome feature on the price front during the financial year 1985-86 was the noticeable deceleration in the rate of inflation as measured by the wholesale price index (WPI). The index for 'all commodities' (1970-71 = 100) registered a rise of 3.8 per cent which was just one-half of that in 1984-85 *viz.*, 7.6 per cent. The price increase during the year was in fact the lowest in the last four years. On an average basis also, the rise in WPI at 5.7 per cent was lower than that of 7.1 per cent recorded in the previous year. This impressive performance on the price front was the result of close monitoring of prices and monetary trends and effective demand – supply management.

The normal seasonal trend in price movements was witnessed during 1985-86 also. During the first phase covering eighteen weeks upto the first week of August 1985 there was a sharp upswing in prices with the WPI recording an increase of 5.7 per cent. This was followed by a sustained spell of declining trend upto the first week of January 1986. During this period, the WPI declined by 2.7 per cent. During the last quarter of the year prices once again witnessed a slow but continuous upward swing with the WPI registering an increase of 1.0 per cent over the quarter. This may be compared with the increase of 7.6 per cent, the decline of 2.0 per cent and again an increase of 2.0 per cent in the corresponding three periods of 1984-85.

The major commodity groups which contributed to the price rise during the first phase of the year under review were cereals, pulses, fruits and vegetables, sugar, khandsari and gur and electricity. The impact of increase in the prices of these commodities was moderated to a large extent by the deceleration in the prices of oilseeds and edible oils, fibres — mainly cotton and jute, and tea. The deceleration during the second phase was mainly on account of declines in prices of fruits and vegetables, raw cotton, raw jute and jute goods and sugar, khandsari and gur. Pulses, edible oils and electricity were the more important of the commodity groups which registered increases during this period. During the last phase of 1985-86 it was once again cereals and fruits and vegetables as also coal and electricity which accounted for the increase. Pulses, raw cotton and jute, oilseeds and edible oils on the other hand, registered declines.

Commodity/Group-wise Trends

The rise of 3.8 per cent in the general index during the year was the outcome of increases, though of a lower order than in the previous year, in the price indices of all the three major groups, *viz.*, primary articles, fuel, power, light and lubricants and manufactured products (Table V-1). The lower pace of increase in the price index was more pronounced in the case of manufactured products. Though the weighted contribution of manufactured products to the general price rise at 38.6 per cent was the highest during the year, its share in the total showed

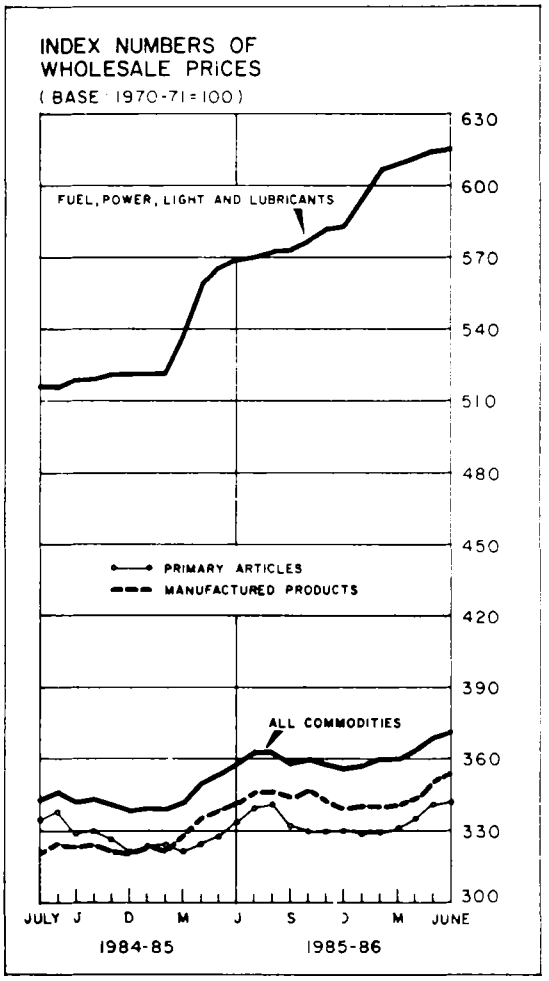
a perceptible decline as compared to that of 59.6 per cent in the preceding year. Both primary articles and fuel, power, light and lubricants exerted a more pronounced impact on the general price rise during the year compared to that in 1984-85.

Table V-1: Extent of Price Rise Based on Wholesale Price Index (1970-71 = 100)
(Major group-wise)

Items	Weight	Percentage variations		Weighted contribution	
		1984-85	1985-86	1984-85	1985-86
1	2	3	4	5	6
ALL COMMODITIES	**1000.00**	**+7.6**	**+3.8**	**100.0**	**100.0**
Primary Articles	416.67	+4.4	+2.8	+22.9	+29.0
Fuel, Power, Light and Lubricants	84.59	+9.9	+8.9	+17.5	+32.4
Manufactured Products	498.74	+9.8	+3.1	+59.6	+38.6

Primary Articles

The lower order of increase of 2.8 per cent in the price index of primary articles during 1985-86 as against 4.4 per cent in the previous year was mainly on account of a sharp decline in the index of non-food articles. While price indices of the groups food articles and minerals registered increases of 7.8 per cent and 0.6 per cent, respectively, that of the group non-food articles declined by 9.7 per cent (Table V-2a). In 1984-85, all the three groups had recorded increases. Among food articles the price indices of three major sub-groups *viz.*, foodgrains, fruits and vegetables and milk and milk products recorded increases during the year. The increases in the first two sub-groups at 9.8 per cent and 21.8 per cent were more pronounced as compared to those in the previous year. A steep rise of 11.9 per cent in the index of cereals was on account of all-round increases in the indices of wheat, rice as also of jowar and bajra. This was perhaps due to the record procurement of wheat and rice *vis-a-vis* lower output resulting in reduced availability of stocks with the private traders in the open market. In addition, upward revision in the issue prices of rice by Rs.9 per quintal with effect from October 1985 and again by Rs.14 per quintal from February 1986 could also have had a hardening effect on its prices. The rise of 21.8 per cent in the index of the sub-group fruits and vegetables was mainly due to the sharp rise in the index of vegetables by as much as 82.6 per cent in contrast to a decline of 25.0 per cent in 1984-85. While the index of the sub-group, milk and milk products recorded a comparatively larger increase, that of eggs, fish and meat was considerably lower than that during 1984-85. Condiments and spices and other food articles on the other hand registered substantial declines. Under the latter, price index of tea declined by 23.9 per cent owing to record production. The index of coffee showed only a moderate increase as against a sharp rise in 1984-85. The group non-food articles registered a steep decline of 9.7 per cent in contrast to an increase of 1.9 per cent in the previous year due mainly to decline in the fibres group (36.9 per cent) and oilseeds (4.1 per cent). Increased production resulting in comfortable supply position was responsible for the sharp decline in prices of both cotton and jute as compared with a moderate decline in the former and a steep rise in the latter in 1984-85.



Fuel, Power, Light and Lubricants

The movements in the price indices of the items under this major group are by and large influenced by the changes effected in their administered prices by the Government. During 1985-86, the index for this group rose by 8.9 per cent which was one percentage point lower than that recorded in the preceding year (Table V-2b). Whereas the increase in 1984-85 was mainly in the mineral oils group *viz.*, kerosene, petrol, diesel oil, etc., in 1985-86 it was mainly in coal and coke; mineral oils recorded only a moderate rise. The price index of electricity during 1985-86 also increased sharply. Developments in price policies which had a direct bearing on price trends in some of these commodities are indicated later in this Chapter.

Table V—2(a): Index Numbers of Wholesale Prices: Primary Articles

(Base 1970-71 = 100)

Major Groups, Groups, Sub-groups and Commodities	Weight	End March 1984	End March 1985	End March 1986	Percentage Variations		Weighted Contribution (Approximate)	
					End March 1985 over End March 1984	End March 1986 over End March 1985	1984-85	1985-86
1	2	3	4	5	6	7	8	9
ALL COMMODITIES	**1000.00**	**321.7**	**346.3**	**359.3**	**+7.6**	**+3.8**	**100.0**	**100.0**
PRIMARY ARTICLES	**416.67**	**308.1**	**321.6**	**330.7**	**+4.4**	**+2.8**	**+22.9**	**+29.0**
A. FOOD ARTICLES	**297.99**	**281.1**	**297.4**	**320.5**	**+5.8**	**+7.8**	**+19.7**	**+53.0**
***(i)* FOOD GRAINS**	129.22	266.5	276.2	303.3	+3.6	+9.8	+5.1	+26.9
a) CEREALS	107.43	244.6	245.0	274.1	+0.2	+11.9	+0.2	+24.0
Rice	51.31	272.5	270.2	282.9	−0.8	+4.7	−0.5	+5.0
Wheat	34.17	209.9	213.3	248.2	+1.6	+16.4	+0.5	+9.2
Jowar	8.39	235.0	234.0	257.5	−0.4	+10.0	—	+1.5
Bajra	5.64	219.6	224.5	312.8	+2.2	+39.3	+0.1	+3.8
b) PULSES	21.79	374.4	430.1	447.1	+14.9	+4.0	+4.9	+2.8
Gram	10.39	390.1	502.1	533.0	+28.7	+6.2	+4.7	+2.5
***(ii)* FRUITS AND VEGETABLES**	61.32	275.8	306.5	373.4	+11.1	+21.8	+7.7	+31.6
Vegetables	24.86	235.0	176.2	321.8	−25.0	+82.6	−5.9	+27.8
Fruits	36.46	303.5	395.4	408.5	+30.3	+3.3	+13.6	+3.7
***(iii)* MILK AND MILK PRODUCTS**	61.50	266.6	270.4	276.8	+1.4	+2.4	+1.0	+3.0
***(iv)* EGGS, FISH AND MEAT**	18.97	345.3	409.9	458.8	+18.7	+11.9	+5.0	+7.1
Fish	6.31	395.6	485.4	540.5	+22.7	+11.4	+2.3	+2.7
Meat	8.46	399.4	469.5	539.0	+17.6	+14.8	+2.4	+4.5
***(v)* CONDIMENTS AND SPICES**	10.94	233.6	262.8	210.7	+12.5	−19.8	+1.3	−4.4
***(vi)* OTHER FOOD ARTICLES**	16.04	431.1	427.2	336.1	−0.9	−21.3	−0.3	−11.2
Tea	11.49	503.7	468.3	356.3	−7.0	−23.9	−1.7	−9.9
Coffee	1.61	203.8	224.6	227.0	+10.2	+1.1	+0.1	—

(Contd.)

Table V-2(a): Index Numbers of Wholesale Prices: Primary Articles *(Concld.)*

(Base 1970-71=100)

Major Groups, Groups, Sub-groups and Commodities	Weight	End March 1984	End March 1985	End March 1986	Percentage Variations		Weighted Contribution (Approximate)	
					End March 1985 over End March 1984	End March 1986 over End March 1985	1984-85	1985-86
1	2	3	4	5	6	7	8	9
B. NON-FOOD ARTICLES	**106.21**	**301.4**	**307.0**	**277.2**	**+1.9**	**-9.7**	**+2.4**	**-24.0**
(i) **FIBRES**	31.73	259.9	297.8	187.9	+14.6	-36.9	+4.9	-26.8
Raw Cotton	22.46	251.6	240.1	179.7	-4.6	-25.2	-1.0	-10.4
Raw Jute	4.29	295.6	573.3	162.2	+93.9	-71.7	+4.8	-13.6
(ii) **OIL SEEDS**	42.01	308.1	290.5	278.6	-5.7	-4.1	-3.0	-3.8
Groundnuts	18.21	308.0	294.6	299.6	-4.4	+1.7	-1.0	+0.7
Rape and Mustard seed	8.22	254.9	247.5	241.0	-2.9	-2.6	-0.2	-0.4
Copra	4.49	454.2	320.2	236.6	-29.5	-26.1	-2.4	-2.9
(iii) **OTHER NON-FOOD ARTICLES**	32.47	333.3	337.3	362.4	+1.2	+7.4	+0.5	+6.3
Sugarcane	16.42	205.9	210.3	248.9	+2.1	+18.4	+0.3	+4.9
Rubber	1.28	349.9	319.4	364.6	-8.7	+14.2	-0.2	+0.4
Logs, Timber and Bamboo	3.34	971.7	915.1	845.9	-5.8	-7.6	-0.8	-1.8
Raw Tobacco	8.07	233.7	198.7	234.3	-15.0	+17.9	-1.1	+2.2
C. MINERALS	**12.47**	**1010.5**	**1024.9**	**1031.3**	**+1.4**	**+0.6**	**+0.7**	**+0.6**
(i) **METALLIC MINERALS**	2.29	290.0	299.5	330.7	+3.3	+10.4	+0.1	+0.5
Iron Ore	1.56	271.3	284.9	323.9	+5.0	+13.7	+0.1	+0.5
(ii) **OTHER MINERALS**	4.16	354.2	373.7	375.8	+5.5	+0.6	+0.3	+0.1
Lime stone	2.30	394.8	394.8	394.8	—	—	—	—
(iii) **PETROLEUM CRUDE AND NATURAL GAS**	6.02	1739.5	1752.1	1752.1	+0.7	—	+0.3	—

Table V-2(b): Index Numbers of Wholesale Prices: Fuel, Power, Light and Lubricants

(Base 1970-71 = 100)

Major Groups, Groups, Sub-groups and Commodities	Weight	End March 1984	End March 1985	End March 1986	Percentage Variations		Weighted Contribution (Approximate)	
					End March 1985 over End March 1984	End March 1986 over End March 1985	1984-85	1985-86
1	2	3	4	5	6	7	8	9
FUEL, POWER, LIGHT AND LUBRICANTS	**84.59**	**508.6**	**559.2**	**609.2**	**+9.9**	**+8.9**	**+17.5**	**+32.4**
A. COAL MINING	11.47	631.9	633.7	717.1	+0.3	+13.2	+0.1	+7.3
Coal	10.39	641.9	641.9	730.7	—	+13.8	—	+7.1
Coke	0.75	575.2	575.2	606.3	—	+5.4	—	+0.2
B. MINERAL OILS	49.12	537.5	606.1	622.2	+12.8	+2.7	+13.7	+6.1
Kerosene	8.35	343.2	382.7	410.4	+11.5	+7.2	+1.3	+1.8
Petrol	8.56	526.6	607.1	643.8	+15.3	+6.0	+2.8	+2.4
Aviation Spirit	4.55	593.4	684.7	690.5	+15.4	+0.8	+1.7	+0.2
Light Diesel Oil	3.44	800.1	929.3	929.3	+16.1	—	+1.8	—
High Speed Diesel Oil	13.74	414.9	437.9	453.6	+5.5	+3.6	+1.3	+1.7
Lubricating Oil	6.48	457.7	525.8	525.8	+14.9	—	+1.8	—
Furnace Oil	4.00	1228.1	1412.5	1412.5	+15.0	—	+3.0	—
C. ELECTRICITY	24.00	390.8	427.6	531.0	+9.4	+24.2	+3.6	+19.0

Manufactured Products

The index of this major group recorded a substantially lower rise of 3.1 per cent as compared with 9.8 per cent in 1984-85 (Table V-2c). This may be attributed mainly to the decline in the price index of textiles group particularly jute, as also lower increase in that of basic metals, alloys and metal products and chemicals and chemical products group. The comparatively slower uptrend in the price index of food products was due mainly to the lower rise in the index of sugar, khandsari and gur by 9.9 per cent as against 13.3 per cent last year.

Price index of textiles recorded a significant decline of 7.9 per cent in contrast to a rise of 8.6 per cent in 1984-85. Sharp declines were noticed in jute, hemp and mesta textiles as also in cotton yarn in contrast to sizeable increases during the preceding year. Among the other sub-groups, while machinery and transport equipments and beverages and tobacco and tobacco products showed larger increases, basic metals, alloys and metal products and chemicals and chemical products showed smaller rise compared to that in the previous year.

Consumer Price Indices

The All-India consumer price index (CPI) for industrial workers (1960=100) increased from 586 in March 1985 to 638 in March 1986 recording a growth rate of 8.9 per cent over the year as compared with the rise of 5.0 per cent during the previous year. On an average basis, however, the increase during 1985-86 at 6.4 per cent was of the same order as that in the previous year (Table V-3). As in the previous year, during 1985-86 also, the CPI exhibited a continuous upward trend till November 1985 rising from 586 in March 1985 to 630 in that month. This level continued in December 1985 also. The index declined to 629 in January 1986 but edged up to 633 in February and further to 638 during March 1986.

Table V-3: Consumer Price Indices

(April-March Average)

	1983-84	1984-85	1985-86
1	2	3	4
1. Consumer Price Index for Industrial Workers (1960=100)	547	582	619
2. Per cent variation in (1)	+12.6	+6.4	+6.4
3. Consumer Price Index for Urban Non-manual Employees (1960=100)	492	532	568
4. Per cent variation in (3)	+10.3	+8.1	+6.8

A centre-wise analysis indicates that during the year the rate of increase in CPI was the highest in Indore (16.1 per cent), followed by Bhopal (15.5 per cent), Kanpur (15.3 per cent), Bhavnagar (14.5 per cent), Raniganj (14.1 per cent) and Darjeeling (13.1 per cent). The centres which recorded declines were Rangapara (−2.6 per cent), Mariani (−2.2 per cent) and Labac (−0.6 per cent).

The consumer price index for urban non-manual employees (1960=100) moved up from 540 in March 1985 to 584 in March 1986 or by 8.1 per cent. This was larger than the increase of 6.9 per cent in 1984-85. On an average basis the index recorded a rise of 6.8 per cent as compared to a larger increase of 8.1 per cent during 1984-85. A centre-wise analysis shows that while all the centres witnessed increases in the index, it was highest in Indore (12.9 per cent) followed by Kharagpur (12.3 per cent). The lowest increase was recorded at Gulbarga (3.4 per cent).

Price Trends During the First Quarter of 1986-87

During the first quarter of 1986-87, the increase in the WPI at 3.7 per cent on a point-to-

Table V-2(c): Index Numbers of Wholesale Prices: Manufactured Products

(Base 1970-71 = 100)

Major Groups, Groups, Sub-groups and Commodities	Weight	End March 1984	End March 1985	End March 1986	Percentage Variations		Weighted Contribution (Approximate)	
					End March 1985 over End March 1984	End March 1986 over End March 1985	1984-85	1985-86
1	2	3	4	5	6	7	8	9
MANUFACTURED PRODUCTS	**498.74**	**301.4**	**330.8**	**340.9**	**+9.8**	**+3.1**	**+59.6**	**+38.6**
A. FOOD PRODUCTS	133.22	298.1	321.7	338.5	+7.9	+5.2	+12.8	+17.1
a) **SUGAR, KHANDSARI AND GUR**	72.41	300.5	340.5	374.3	+13.3	+9.9	+11.8	+18.8
Sugar	21.91	233.1	249.5	307.4	+7.0	+23.2	+1.5	+9.8
Khandsari	4.92	249.6	303.0	368.6	+21.4	+21.7	+1.1	+2.5
Gur	45.58	338.4	388.3	407.0	+14.7	+4.8	+9.2	+6.6
b) **MISCELLANEOUS FOOD PRODUCTS**	49.16	299.3	301.7	294.5	+0.8	−2.4	+0.5	−2.7
i) **EDIBLE OILS**	37.16	304.2	298.1	297.2	−2.0	−0.3	−0.9	−0.3
Vanaspati	7.52	253.0	287.7	326.9	+13.7	+13.6	+1.1	+2.3
Groundnut Oil	14.15	314.5	309.7	315.2	−1.5	+1.8	−0.3	+0.6
Mustard Oil	6.68	251.4	238.7	243.7	−5.1	+2.1	−0.3	+0.3
B. BEVERAGES, TOBACCO AND TOBACCO PRODUCTS	27.08	250.1	260.2	322.0	+4.0	+23.8	+1.1	+12.8
C. TEXTILES	110.26	263.6	286.3	263.7	+8.6	−7.9	+10.2	−19.2
i) **COTTON TEXTILES**	81.02	250.8	263.2	261.6	+4.9	−0.6	+4.1	−1.0
Cotton Yarn	13.82	274.8	303.8	261.5	+10.6	−13.9	+1.6	−4.5
Cotton Cloth (Mills)	38.04	252.8	263.2	271.4	+4.1	+3.1	+1.6	+2.4
ii) **JUTE, HEMP AND MESTA TEXTILES**	12.14	330.8	399.3	226.2	+20.7	−43.4	+3.4	−16.2
D. PAPER AND PAPER PRODUCTS	8.51	339.7	377.9	392.6	+11.2	+3.9	+1.3	+1.0
E. LEATHER AND LEATHER PRODUCTS	3.85	408.8	427.0	501.5	+4.5	+17.4	+0.3	+2.2
F. RUBBER AND RUBBER PRODUCTS	12.07	326.4	358.6	362.4	+9.9	+1.1	+1.6	+0.4
G. CHEMICALS AND CHEMICAL PRODUCTS	55.48	284.7	303.8	319.2	+6.7	+5.1	+4.3	+6.6
FERTILISERS	12.52	262.5	262.5	288.9	—	+10.1	—	+2.5

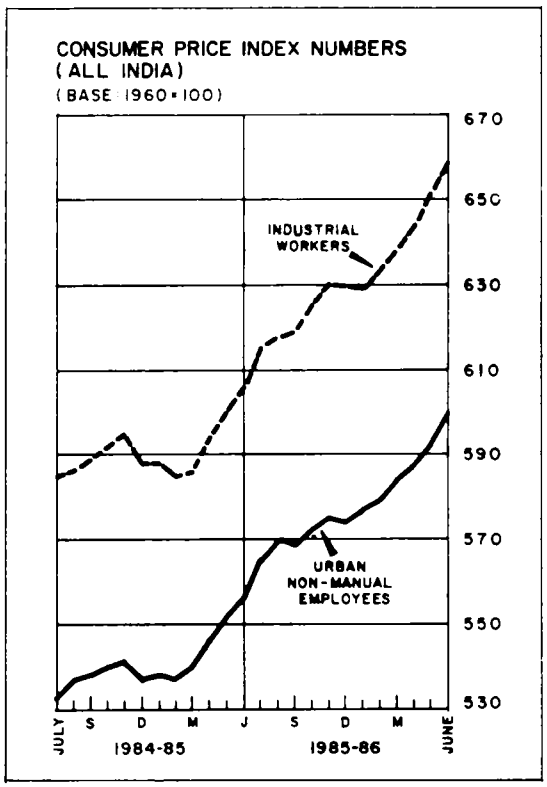
(Contd.)

Table V-2(c): Index Numbers of Wholesale Prices: Manufactured Products *(Concld.)*

(Base 1970-71 = 100)

Major Groups, Groups, Sub-groups and Commodities	Weight	End March 1984	End March 1985	End March 1986	Percentage Variations		Weighted Contribution (Approximate)	
					End March 1985 over End March 1984	End March 1986 over End March 1985	1984-85	1985-86
1	2	3	4	5	6	7	8	9
H. NON-METALLIC MINERAL PRODUCTS	14.15	413.5	448.8	443.3	+8.5	−1.2	+2.0	−0.6
CEMENT, LIME AND PLASTER	7.07	432.3	500.4	470.4	+15.8	−6.0	+2.0	−1.6
Cement	7.03	433.1	501.3	471.3	+15.7	−6.0	+1.9	−1.6
I. BASIC METALS, ALLOYS AND METAL PRODUCTS	59.74	389.4	469.4	471.7	+20.5	+0.5	+19.4	+1.1
a) **IRON, STEEL AND FERRO ALLOYS**	34.73	419.1	535.1	541.0	+27.7	+1.1	+16.4	+1.6
Pig Iron	1.67	451.6	594.0	594.0	+31.5	—	+1.0	—
Structurals	4.72	381.1	544.2	544.2	+42.8	—	+3.1	—
Steel Plates and Sheets	5.97	351.5	507.2	507.2	+44.3	—	+3.8	—
Bars and Rods	7.31	495.3	581.0	581.0	+17.3	—	+2.5	—
b) **NON-FERROUS METALS AND THEIR ALLOYS**	11.78	367.6	393.3	400.4	+7.0	+1.8	+1.2	+0.6
Aluminium	4.29	381.2	413.2	437.8	+8.4	+6.0	+0.6	+0.8
c) **METAL PRODUCTS**	13.23	330.9	364.7	353.2	+10.2	−3.2	+1.8	−1.2
J. MACHINERY AND TRANSPORT EQUIPMENT	67.18	291.1	313.2	346.7	+7.6	+10.7	+6.0	+17.2
a) **NON-ELECTRICAL MACHINERY**	30.91	314.4	336.4	367.9	+7.0	+9.4	+2.8	+7.5
b) **ELECTRICAL MACHINERY**	19.54	241.2	260.1	282.8	+7.8	+8.7	+1.5	+3.4
c) **TRANSPORT EQUIPMENT**	16.73	306.5	332.1	382.0	+8.4	+15.0	+1.7	+6.4
K. MISCELLANEOUS PRODUCTS	7.20	262.4	281.7	281.9	+7.4	+0.1	+0.6	—

point basis was only marginally higher than that recorded during the corresponding period of 1985-86. A higher increase of 4.3 per cent in the major group manufactured products as against 3.5 per cent in the corresponding quarter last year, was neutralised to a large extent by lower increases in the case of primary articles: 3.9 per cent as against 4.3 per cent and the major group fuel, power, light and lubricants: 0.9 per cent as compared with 1.7 per cent. The lower order of increase of 3.9 per cent in the index of primary articles was brought about mainly by the decline in the indices of cereals (−1.6 per cent) and pulses (−9.5 per cent) and lower increase in fruits and vegetables (14.9 per cent). Oilseeds registered a sharp rise of 14.6 per cent in contrast to a fall of 3.8 per cent in the same quarter of the previous year. The increase in the index of manufactured products by 4.3 per cent was largely on account of the steep rise in the index of edible oils in sharp contrast to a decline in 1985-86. Prices of sugar, khandsari and gur also hardened sizeably though to a lower extent than in the previous year.



During the first quarter of the current financial year *viz.*, April-June 1986, the consumer price index for industrial workers rose by 3.1 per cent to 658. During the corresponding period of 1985-86, CPI had recorded a marginally higher increase of 3.4 per cent. On an average basis, however, the rise during the first quarter of 1986-87 at 8.4 per cent was larger by 2.2 percentage points over the corresponding period of 1985-86.

The consumer price index for urban non-manual employees also moved up by 2.6 per cent to 599 during April-June 1986. This was of a lower order than that of 3.0 per cent in the corresponding period of the preceding year.

Price Policies

The various measures adopted by the Government in respect of a number of commodities which had a bearing on their prices during the fiscal year 1985-86 as also subsequently upto the end of June 1986 are indicated below. These included modifications in policies relating to the public distribution system and import/export policies in respect of certain commodities taking into account the developments in the domestic and international markets.

Certain adjustments were made in the administered prices of some of the basic commodities keeping in view their production cost, relative price levels and the amount of budgetary subsidy required. The statutory retail prices of principal fertilisers, *viz.*, urea and diammonium phosphate were raised by 9.3 per cent and 7.5 per cent, respectively with effect from January 31, 1986. The average pit-head price of coal was raised on January 9, 1986 by Rs.27 per tonne over the levels of January 1984 when they were last revised. The average increase was distributed among different grades of coal in such a manner that the lower grades of coal, used mainly by the public utilities, like power houses, have to bear only 50 per cent of the increase. The price of soft coke for the industrial consumers was increased to Rs.300 per tonne. Effective February 1, 1986, prices of petroleum

Table V-4: Variations in Index Numbers of Wholesale Prices (1970-71 = 100)

Items	Weight	Percentage variations (Point-to-Point) 1985-86 End-June over End-March	1986-87* End-June over End-March
1	2	3	4
ALL COMMODITIES	**1000.00**	**+3.6**	**+3.7**
I. Primary Articles	416.67	+4.3	+3.9
Food Articles	297.99	+7.7	+4.5
Cereals	107.43	+4.0	−1.6
i) Rice	51.31	+6.3	+4.6
ii) Wheat	34.17	−0.9	−8.3
Pulses	21.79	+0.3	−9.5
Fruits and Vegetables	61.32	+22.3	+14.9
Milk and Milk Products	61.50	+3.9	+3.6
Other food articles	16.04	+0.3	+20.9
Tea	11.49	−1.2	+22.1
Non-food articles	106.21	−3.5	+3.3
Fibres	31.73	−12.0	−5.4
Raw Cotton	22.46	−5.2	−7.8
Oil seeds	42.01	−3.8	+14.6
Minerals	12.47	+0.5	—
Petroleum crude and natural gas	6.02	—	—
II. Fuel, Power, Light and Lubricants	84.59	+1.7	+0.9
Coal	10.39	—	—
Mineral oils	49.12	—	—
III. Manufactured Products	498.74	+3.5	+4.3
Sugar, Khandsari and Gur	72.41	+17.5	+13.3
i) Sugar	21.91	+14.3	−4.2
ii) Khandsari	4.92	+22.0	−1.0
iii) Gur	45.58	+18.1	+21.1
Edible oils	37.16	−7.8	+15.0
Textiles	110.26	−1.5	+1.7
Paper and Paper Products	8.51	—	—
Cement	7.03	+3.3	—
Chemicals and Chemical Products	55.48	+1.5	+0.6
Iron, Steel and Ferro Alloys	34.73	+0.7	+0.2

* Provisional.

products were raised. The increase per kilolitre was Rs.500 in the case of motor spirit (petrol), Rs.180 for high speed diesel, Rs.225 for kerosene oil, Rs.500 for aviation turbine fuel used by domestic airlines and Rs.700 a tonne for cooking gas. These increases were necessitated, apart from the reasons mentioned above, by considerations of the balance of payments situation and the need to induce discipline in their consumption in view of the growing share of oil and gas in commercial energy consumption. Some reduction in the enhanced rate was effected later on February 6, 1986 to provide relief to the vulnerable sections of the society and help farming and other communities. The reduction per kilolitre was Rs.100 for petrol, Rs.72 for high speed diesel oil, Rs.90 for kerosene oil and Rs.280 per tonne for cooking gas.

Following the recommendations of the Bureau of Industrial Costs and Prices (BICP) (to which the question of revision in the prices was referred to as mentioned in last year's Report), Government raised the price of aluminium by more than Rs.1,000 per tonne from December 20, 1985. Simultaneously, to compensate the industry and the consumers for the price rise, excise duty on it was reduced from 18.7 per cent to 12 per cent; this was raised subsequently to 13 per cent effective March 1, 1986. The customs duty was, however, raised from 25 per cent to 50 per cent *ad valorem*. In addition, the countervailing duty at the reduced rate of 12 per cent continued to be applicable.

The policy relating to release of imported edible oils both for public distribution system (PDS) and for vanaspati industry underwent several changes following the trend in output, availability and prices in the domestic markets. In November 1985, the allocation of imported edible oils to vanaspati industry was reduced to 50 per cent of the vanaspati industry's requirement. Simultaneously, the issue price of imported edible oils was increased by Rs.1,000 to Rs.9,000 for PDS in bulk supplies and to Rs.10,500 for supplies in tins. The price of imported edible oils to vanaspati industry was increased by Rs.2,000 to Rs.11,500 per tonne. In order to compensate the vanaspati industry for the cut in the allocation of imported oil, it was allowed to use expeller mustard/rapeseed oil to the extent of 10 per cent of its requirement. The limit was raised to 20 per cent from January 1986, to 30 per cent from February 1986 and further to 50 per cent from May 1986. It was, however, reduced to 30 per cent later in the month and further to 15 per cent in July 1986. The use of expeller mustard/rapeseed oil by vanaspati industry was banned with effect from August 1986. As a sequel to the increase in the issue price of imported oils, the voluntarily agreed retail price of vanaspati was increased from Rs.318 to Rs.345 for a 20 kg. tin with corresponding increases for other packs. From January 1986, the voluntary price agreement with the vanaspati industry was discontinued. The allocation of imported edible oils to the industry was reduced to 40 per cent of the requirement from that date and further to 30 per cent from February 10, 1986. The industry was also allowed to lift upto 10 per cent of its requirement at the commercial rate of Rs.13,000 a tonne to meet any shortfall (raised to 20 per cent from August 1, 1986). The Union budget for 1986-87 imposed excise duty on costly refined edible oils at Rs.750 a tonne. In April 1986 the allocation of imported edible oils to the vanaspati industry was increased to 40 per cent to reduce the pressure of demand for domestic oil. The allocation was raised further to 50 per cent in June 1986 and to 60 per cent for the period July-September 1986.

With a view to encouraging sugar production during 1985-86 season, the Government decided on August 22, 1985 to grant rebate in excise duty on sugar produced during October and November 1985, in excess of the production during the corresponding months of 1983 and 1984. The quantum of rebate in basic excise duty for levy sugar was Rs.17.00 per quintal and that for free sale sugar Rs.19.45 per quintal. Besides, in the case of levy sugar, rebate to the extent of Rs.2.45 per quintal under the Additional Duties of Excise (goods of special importance) Act, 1957 was also made available. In October 1985, the Government removed the quantum limit of 50,000 tonnes a month on the sale of imported sugar by the Food Corporation

of India (FCI) through tenders to enhance supplies to the open market during the festival season. In November 1985, the Government announced the sugar policy for the 1985-86 sugar year. The ratio of levy and free sale sugar was altered from 65:35 to 55:45. To assure remunerative prices to sugarcane growers, the statutory minimum price of sugarcane was increased from Rs.14 a quintal to Rs.16.50 a quintal (linked to basic recovery of 8.5 per cent). For the sugar year 1986-87 the decision to raise it further to Rs.17.00 was announced in advance. Simultaneously, the issue price of sugar was increased by 40 paise to Rs.4.80 a kg. effective December 1, 1985. As the existing 3-year price formula for the sugar industry was applicable only upto 1986-87 the Government asked BICP in June 1986 to undertake a fresh comprehensive cost study of the sugar industry and recommend a new price structure for the three seasons beginning from 1987-88.

The tea marketing policy announced by the Government in February 1985 stipulated restriction on exports during 1985 to 220 million kgs. so that more tea could be made available for domestic consumers. The policy was also designed to favour utilisation of the export quota of 220 million kgs. by export of high value tea through mechanism of minimum export price (MEP) which kept back cheaper tea for domestic market. This policy enabled India to maintain an estimated unit value realisation of Rs.32.02 per kg. during 1985 as compared to Rs.34.12 per kg. during 1984 despite a sharp fall in world prices. The stipulation of MEP was withdrawn in August 1985 because of the surplus in world tea production as well as the comfortable supply position in India. For ensuring smooth flow of tea from auction centres to distribution points in the domestic market, the Government amended the Tea (Registration of Dealers and Declaration of Stocks), Order in November 1985 increasing the prescribed limit for holding of stocks from 1,000 kgs. to 3,000 kgs. In order to revitalise Darjeeling tea gardens which had been languishing, the concessional rate of central excise at 20 paise per kg. for gardens under Excise Zone-III was continued for a period of one year from January 1, 1986.

Following the fall in international prices of coffee the Government reduced by stages the export duty on coffee from Rs.720 to Rs.570 in April 1985, to Rs.415 in June 1985 and further to Rs.300 per quintal in August 1985. However, the duty was subsequently raised to Rs.600 a quintal from January 1986 with a view to mopping up a part of the additional gains accruing to the exporters of coffee due to the emergence of rising trend in coffee prices in the international market.

In June 1985, the levy quota for cement was lowered from 65 per cent of the installed capacity to 60 per cent of actual production in the case of old cement units and from 45 per cent of the installed capacity to 40 per cent of actual production in the case of new and sick units to compensate the cement industry for the increase in the cost of production. The changeover in the criteria for allocating levy cement from installed capacity to actual production was effected mainly for simplifying procedures.

In January 1986, the import duty (basic auxiliary) on unalloyed zinc was raised from 85 per cent to 125 per cent *ad valorem* and on lead unwrought and waste and scrap of lead from 100 per cent to 125 per cent *ad valorem*. The import duty on zinc concentrate was reduced to 15 per cent from 30 per cent *ad valorem*.

During the period under review, the official pricing committee on non-ferrous metals revised the prices of some of the imported non-ferrous metals periodically taking into account trends in international markets, appreciation in the value of dollar and demand – supply position within the economy.

Chapter VI

Monetary Developments

Overall Trends

Monetary expansion during the financial year 1985-86 in terms of narrow money (M_1) was lower than in the preceding year. In terms of broad money i.e. M_3 (M_1 + time deposits with banks), the expansion was marginally higher in absolute terms but the growth rate was lower. The expansion in M_1 at Rs.3,902 crores was much less than that of Rs.6,583 crores in 1984-85; the percentage growth rate worked out to 9.8 per cent which was less than half the growth rate of 19.9 per cent in the previous year. M_3 in absolute terms registered a slightly larger increase of Rs.16,153 crores than that of Rs.16,058 crores during the previous year; the growth rate at 15.8 per cent was perceptibly lower by 2.9 percentage points. While the increase in M_2 i.e. M_1 + post office savings deposits at Rs.4,041 crores (9.5 per cent) was lower than that of Rs.6,767 crores (18.9 per cent) in 1984-85, M_4 i.e. M_3 + total post office deposits recorded a higher rise in absolute terms at Rs.17,556 crores as against Rs.17,230 crores. However, the growth rate was lower by 2.5 percentage points (Table VI-1). The increase in reserve money at Rs.6,316 crores (20.1 per cent) was more than twice the rise of Rs.2,653 crores (9.2 per cent) during the preceding year.

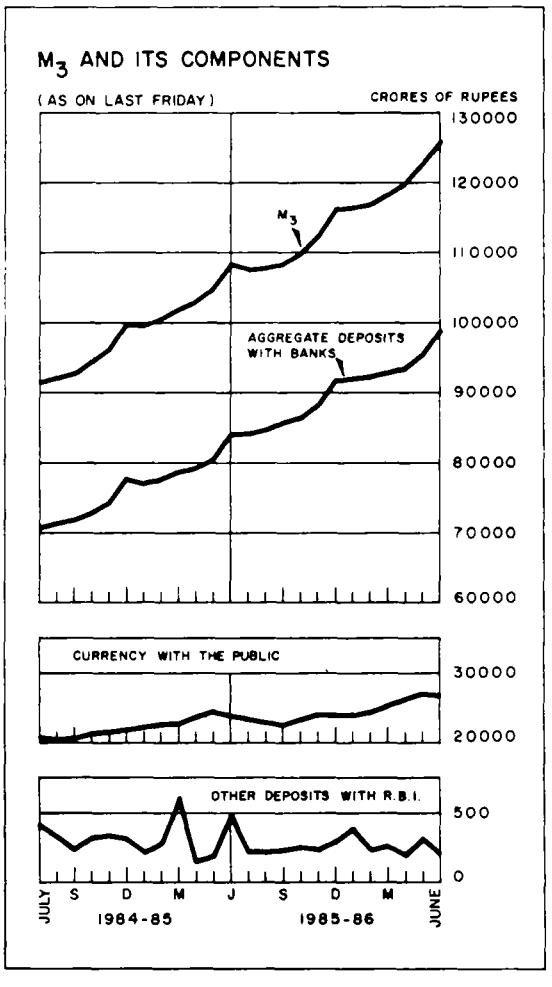


Table VI-1: Money Supply and its Components

(Rupees crores)

Items	Variations during financial year						Out-standing as on the last Friday of March 1986‡	Variations during the quarter			
	1983-84		1984-85		1985-86‡			April-June 1985		April-June 1986‡	
	Absolute	Percentage	Absolute	Percentage	Absolute	Percentage		Absolute	Percentage	Absolute	Percentage
1	2	3	4	5	6	7	8	9	10	11	12
M_1 (a+b+c)	+ 4,531	+15.9	+ 6,583	+19.9	+ 3,902	+ 9.8	43,551	+2,353	+ 5.9	+2,705	+ 6.2
(a) Currency with the public	+ 2,894	+17.4	+ 3,111	+15.9	+ 2,444	+10.8	25,108	+1,263	+ 5.6	+1,502	+ 6.0
(b) Demand deposits with banks	+ 1,505	+12.9	+ 3,187	+24.2	+ 1,810	+11.0	18,192	+1,208	+ 7.4	+1,251	+ 6.9
(c) Other deposits with RBI	+ 132	+71.0	+ 285	+89.6	− 352	−58.4	251	− 118	−19.6	− 48	−19.1
Post Office Savings Bank Deposits	+ 152	+ 6.1	+ 184	+ 6.9	+ 139	+ 4.9	2,971	− 107	− 3.8	—	—
M_2 (M_1 + Post Office Savings Bank Deposits)	+ 4,683	+15.1	+ 6,767	+18.9	+ 4,041	+ 9.5	46,522	+2,246	+ 5.3	+2,705	+ 5.8
Time deposits with banks	+ 8,500	+19.2	+ 9,475	+17.9	+12,251	+19.7	74,559	+4,174	+ 6.7	+4,994	+ 6.7
M_3 (M_1 + Time deposits with banks)	+13,031	+17.9	+16,058	+18.7	+16,153	+15.8	1,18,110	+6,527	+ 6.4	+7,699	+ 6.5
Total Post Office Deposits	+ 816	+ 9.8	+ 1,172	+12.9	+ 1,403	+13.6	11,687	+ 79	+ 0.8	—	—
M_4 (M_3 + Total Post Office Deposits)	+13,847	+17.1	+17,230	+18.1	+17,556	+15.6	1,29,797	+6,606	+ 5.9	+7,699	+ 5.9

‡ Data are provisional.

Money Supply-Components

Among the components of M_3, currency with the public expanded by Rs.2,444 crores (10.8 per cent) which was markedly lower than the increase of Rs.3,111 crores (15.9 per cent) in the preceding year. In fact the expansion in currency which had been accelerating since 1981-82 decelerated during the year. As a result the share of currency in the expansion of M_3 which was more than 20 per cent in both 1982-83 and 1983-84 had come down to 19.4 per cent in the subsequent year and declined further to 15.1 per cent in 1985-86. The increase in aggregate deposits in absolute terms, at Rs.14,061 crores was larger than that in 1984-85; the growth rate, however, at 17.9 per cent showed a decline of 1.3 percentage points. This was because there was a sharp decline in the accrual to demand deposits which amounted to only Rs.1,810 crores as against Rs.3,187 crores in the previous year; this neutralised to a large extent accretion to time deposits with banks which was higher at Rs.12,251 crores (19.7 per cent) as against Rs.9,475 crores (17.9 per cent). The share of aggregate deposits with banks in the expansion of M_3 which had increased from 76.8 per cent in 1983-84 to 78.9 per cent in 1984-85 spurted to 87.0 per cent in 1985-86. Other deposits with RBI declined by Rs.352 crores in contrast to a rise of Rs.285 crores in 1984-85. The comparatively lower increases in currency and demand deposits in 1985-86 could perhaps be attributed among others to relative price stability, availability of more attractive financial assets, measures to check the growth of black money and relatively smaller accrual to foreign exchange assets.

Sources of change in money supply

The higher expansion in M_3 during 1985-86 was mainly brought about by net bank credit to Government which registered a larger expansion than in the previous year. The accrual to net foreign exchange assets of the banking sector was of a much smaller order than in the previous year. The increase in bank credit to commercial sector likewise was smaller, although marginally, than in the previous year.

Net bank credit to Government registered a large increase of Rs.9,530 crores as compared with Rs.8,445 crores in the previous year; the growth rate however, was lower by 1.3 percentage points. The increase was largely attributable to net RBI credit to Government which, at Rs.9,127 crores,was nearly three times that in the previous year. Other banks' credit to Government rose by Rs.403 crores only as against Rs.5,296 crores in 1984-85. Accruals to net foreign exchange assets of the banking sector which had shown a substantial rise of Rs.1,467 crores in 1984-85, came down to only Rs.299 crores during the year. Bank credit to commercial sector showed a smaller increase of Rs.10,784 crores (15.2 per cent) as compared with Rs.10,809 crores (18.0 per cent) in 1984-85. This was due to a lower expansion in RBI's credit to commercial sector. Other banks' credit to commercial sector registered a slightly higher increase. Net non-monetary liabilities of the banking sector which is a contractionary factor, recorded an increase of Rs.4,559 crores as against a larger rise of Rs.4,720 crores in 1984-85 (Table VI-2).

Seasonal Trends

Seasonal variations in M_3, both component-wise and source-wise, during the last two busy and slack seasons are presented in Table VI-3. The slack season of 1985 (end-April to end-October) witnessed a lower order of monetary expansion than that in the previous slack season. M_3 expanded by Rs.6,895 crores (6.7 per cent) as compared with Rs.7,128 crores (8.2 per cent). A decline in currency with the public in contrast to a sizeable rise in the 1984 slack season brought about a lower expansion in M_3. Both aggregate deposits with banks and other deposits with RBI recorded higher increases. Source-wise, the slack season trend was more or less the same as the financial year trend mentioned above. Bank credit to commercial sector and net foreign exchange assets of the banking sector showed lower increases. Net bank credit to Government recorded a larger expansion in absolute terms but the growth rate was lower by 0.5 percentage point.

Table VI-2: Sources of Money Stock (M_3)

(Rupees crores)

Items	Variations during financial year						Outstanding as on last Friday of March 1986‡	Variations during the quarter			
	1983-84		1984-85		1985-86‡			April-June 1985		April-June 1986‡	
	Absolute	Percentage	Absolute	Percentage	Absolute	Percentage		Absolute	Percentage	Absolute	Percentage
1	2	3	4	5	6	7	8	9	10	11	12
Sources of Money Stock (M_3) (1+2+3+4−5)	**+13,031**	**+17.9**	**+16,058**	**+18.7**	**+16,153**	**+15.8**	**1,18,110**	**+6,527**	**+6.4**	**+7,699**	**+6.5**
1. Net Bank Credit to Government (A+B)	**+5,757**	**+16.6**	**+8,445**	**+20.8**	**+9,530**	**+19.5**	**58,480**	**+5,510**	**+11.3**	**+6,794**	**+11.6**
A. RBI's net credit to Government (i−ii)	+4,311	+19.3	+3,149	+11.8	+9,127	+30.7	38,901	+6,693	+22.5	+4,880	+12.5
(i) Claims on Government (a+b)	+706	+2.7	+8,321	+31.0	+3,881	+11.0	39,080	+1,343	+3.8	+4,767	+12.2
(a) Central Government	−273	−1.1	+7,808	+30.5	+5,639	+16.9	39,080	+2,785	+8.3	+4,767	+12.2
(b) State Governments	+979	+368.0	+513	+41.2	−1,758	+110.0	—	−1,442	−82.0	—	—
(ii) Government deposits with RBI (a+b)	−3,605	−93.4	+5,172	+2,044.3	−5,246	−96.7	179	−5,350	−98.6	− 113	−63.1
(a) Central Government	−3,596	−93.5	+5,173	+2,085.9	−5,261	−97.0	160	−5,361	−98.9	−109	−68.1
(b) State Governments	−9	−64.3	−1	−20.0	+15	+375.0	19	+11	+275.0	−4	−21.2
B. Other banks' credit to government	+1,446	+11.6	+5,296	+38.2	+403	+2.1	19,579	−1,183	−6.2	+1,914	+9.8
2. Bank Credit to Commercial Sector (A + B)	**+8,830**	**+17.3**	**+10,809**	**+18.0**	**+10,784**	**+15.2**	**81585**	**+2,196**	**+3.1**	**+1,688**	**+2.1**
A. RBI's credit to commercial sector*	+451	+23.4	+389	+16.4	+301	+10.9	3,066	−32	−1.2	−17	−0.6
B. Other banks' credit to commercial sector (i+ii+iii)	+8,379	+17.0	+10,420	+18.1	+10,483	+15.4	78,519	+2,228	+3.3	+1,705	+2.2
(i) Bank credit by commercial banks	+5,803	+16.3	+7,660	+18.5	+6,966	+14.2	55,930	+1,969	+4.0	+1,109	+2.0
(ii) Bank credit by co-operative banks	+943	+13.4	+1,013	+12.7	+1,406	+15.6	10,412	−88	−1.0	−64	−0.6
(iii) Investments by commercial & co-operative banks in other securities	+1,633	+24.4	+1,747	+21.0	+2,111	+21.0	12,177	+347	+3.4	+660	+5.4
3. Net Foreign Exchange Assets of the Banking Sector (A+B)	**−182**	**−10.0**	**+1,467**	**+89.1**	**+299**	**+9.6**	**3,412**	**−389**	**−12.5**	**+247**	**+7.2**
A. RBI's net foreign exchange assets (i−ii)	−105	26.1	+1,420	+87.4	+299	+9.8	3,343	−389	−12.8	+247	+7.4
(i) Gross foreign assets	+1,232	+27.4	+1,484	+25.9	+54	+0.7	7,261	−453	−6.3	+179	+2.5
(ii) Foreign liabilities	+1,337	+48.4	+64	+1.6	−245	−5.9	3,918	−64	−1.5	−68	−1.7
B. Other banks' net foreign exchange assets	−77	−77.8	+47	+213.6	—	—	69	—	—	—	—
4. Government's Currency Liabilities to the Public	**+38**	**+5.6**	**+57**	**+7.9**	**+99**	**+12.7**	**876**	**+22**	**+2.8**	**—**	**—**
5. Banking Sector's Net Non-monetary Liabilities other than Time Deposits (A+B)	**+1412**	**+9.1**	**+4,720**	**+27.8**	**+4,559**	**+21.0**	**26,243**	**+812**	**+3.7**	**+1,030**	**+3.9**
A. Net non-monetary liabilities of RBI	−460	−8.3	+2,581	+50.6	+2,991	+38.9	10,677	+497	+6.5	+598	+5.6
B. Net non-monetary liabilities of other banks (derived)	+1,872	+18.7	+2,139	+18.0	+1,568	+11.2	15,566	+315	+2.3	+432	+2.8

‡ Data are provisional.

* RBI's credit to commercial sector excludes, since the establishment of NABARD, its refinance to banks.

Table VI-3: Seasonal Variations in M_3 and its Sources of Change

(Rupees crores)

Items	Variations during							
	Slack Season				Busy Season			
	1984		1985‡		1984-85		1985-86‡	
	Absolute	Percentage	Absolute	Percentage	Absolute	Percentage	Absolute	Percentage
1	2	3	4	5	6	7	8	9
I. M_1 [a+b(i)+c]	**+1,879**	**+5.6**	**+379**	**+1.0**	**+4,061**	**+11.4**	**+4,127**	**+10.3**
II. M_3 (a+b+c)	**+7,128**	**+8.2**	**+6,895**	**+6.7**	**+8,527**	**+9.0**	**+9,913**	**+9.0**
(a) Currency with the public	+838	+4.1	−277	−1.2	+2,246	+10.5	+2,813	+12.1
(b) Aggregate deposits with banks (i+ii)	+6,228	+9.4	+7,067	+8.9	+6,459	+8.9	+7,159	+8.3
(i) Demand deposits	+979	+7.5	+551	+3.4	+1,993	+14.2	+1,373	+8.3
(ii) Time deposits	+5,249	+9.8	+6,516	+10.3	+4,466	+7.6	+5,786	+8;3
(c) Other deposits with RBI	+62	+23.9	+105	+73.4	−178	−55.5	−59	−23.8
III. Sources of change in M_3 (1+2+3+4−5)								
1. Net Bank Credit to Government (A+B)	**+3,895**	**+9.2**	**+4,443**	**+8.7**	**+4,769**	**+10.3**	**+5,006**	**+9.0**
(A) RBI's net credit to Government (i−ii)	+2,105	+7.9	+3,664	+12.2	+1,092	+3.8	+3,511	+10.4
(i) Claims on Government (a+b)	+3,043	+11.3	+1,355	+4.2	+2,261	+7.5	+3,587	+10.6
(a) Central Government	+3,304	+12.9	+3,234	+10.6	+1,418	+4.9	+3,560	+10.6
(b) State Governments	−261	−19.2	−1,879	−96.7	+843	+76.6	+27	+41.5
(ii) Government deposits with RBI (a+b)	+938	+352.6	−2,309	−97.3	+1,169	+97.1	+76	+118.8
(a) Central Government	+933	+354.8	−2,319	−97.9	+1,173	+98.1	+75	+150.0
(b) State Governments	+5	+166.7	+10	+250.0	−4	−50.0	+1	+7.1
(B) Other banks' credit to Government	+1,790	+11.4	+779	+3.7	+3,677	+21.0	+1,495	+6.8
2. Bank Credit to Commercial Sector (A+B)	**+4,744**	**+7.9**	**+4,426**	**+6.3**	**+5,304**	**+8.2**	**+7,038**	**+9.4**
(A) RBI's credit to commercial sector×	+382	+16.1	+316	+11.5	−10	−0.4	−6	−0.2
(B) Other banks' credit to commercial sector (i+ii+iii)	+4,362	+7.5	+4,110	+6.1	+5,314	+8.5	+7,044	+9.8
(i) Bank credit by commercial banks	+3,229	+7.8	+2,623	+5.4	+3,950	+8.8	+4,757	+9.3
(ii) Bank credit by co-operative banks	+185	+2.3	+261	+2.9	+813	+9.9	+1,152	+12.4
(iii) Investments by commercial and co-operative banks in other securities	+948	+11.3	+1,226	+12.4	+551	+5.9	+1,135	+10.2
3. Net Foreign Exchange Assets of the Banking Sector (A+B)	**+675**	**+41.6**	**+32**	**+1.0**	**+941**	**+41.0**	**+592**	**+18.1**
(A) RBI's net foreign exchange assets (i−ii)	+628	+39.3	+32	+1.0	+941	+42.3	+592	+18.5
(i) Gross foreign assets	+768	+13.5	−120	−1.6	+865	+13.4	+476	+6.6
(ii) Foreign liabilities	+140	+3.4	−152	−3.7	−76	−1.8	−116	−2.9
(B) Other banks' net foreign exchange assets	+47	+213.6	—	—	—	—	—	—
4. Government's Currency Liabilities to the Public	**+24**	**+3.3**	**+44**	**+5.6**	**+35**	**+4.7**	**+48**	**+5.8**
5. Banking Sector's Net Non-monetary Liabilities other than Time Deposits (A+B)	**+2,210**	**+12.4**	**+2,050**	**+9.1**	**+2,522**	**+12.6**	**+2,771**	**+11.3**
(A) Net non-monetary liabilities of RBI	+1,564	+30.1	+1,436	+18.3	+1,074	+15.9	+1,034	+11.1
(B) Net non-monetary liabilities of other banks (derived)	+646	+5.1	+614	+4.2	+1,448	+10.9	+1,737	+11.4

‡ Provisional.

× RBI's credit to commercial sector excludes, since the establishment of NABARD, its refinance to banks.

During the busy season of 1985-86, the expansion in M_3 was higher at Rs.9,913 crores as compared with Rs.8,527 crores during the 1984-85 busy season. The growth rate, however, remained unchanged at 9.0 per cent. Of the components, time deposits with banks and currency with the public showed larger increases. Demand deposits with banks registered a sizeably lower increase than in the 1984-85 busy season.

Of the sources of expansion in M_3, net bank credit to Government and bank credit to commercial sector showed larger expansion than in the previous busy season; the growth rate in the case of the former, however, was lower. Net foreign exchange assets recorded a lower rise.

Reserve Money

The increase in reserve money in 1985-86 on a point-to-point basis was substantially higher at Rs.6,316 crores (20.1 per cent) as compared with Rs.2,653 crores (9.2 per cent) in 1984-85. However, the annual average of fortnightly figures of reserve money showed a growth rate of 13.5 per cent as against 19.3 per cent in the previous year. The expansion during the year was largely due to a sharp increase in bankers' deposits with RBI at Rs.4,140 crores in contrast to a decline of Rs.891 crores in the previous year. Among the other components, lower increases were recorded in currency with the public as already noted, as also in cash with banks; other deposits with RBI declined in contrast to a rise in 1984-85 (Table VI-4).

Table VI-4: Reserve Money: Components and Sources of Change (Rupees crores)

Items	Variations during financial year				Outstanding as on last Friday of March 1986×	Variations during the quarter			
	1984-85		1985-86×			April-June 1985		April-June 1986×	
	Absolute	Percentage	Absolute	Percentage		Absolute	Percentage	Absolute	Percentage
1	2	3	4	5	6	7	8	9	10
Reserve Money (1+2+3+4)	**+2,653**	**+9.2**	**+6,316**	**+20.1**	**37,793**	**+5,641**	**+17.9**	**+3,777**	**+10.0**
1. Currency with the public	+3,111	+15.9	+2,444	+10.8	25,108	+1,263	+5.6	+1,502	+6.0
2. Other deposits with RBI	+285	+89.6	−352	−58.4	251	−118	−19.6	−48	−19.1
3. Cash on hand with banks	+148	+14.0	+84	+7.0	1,286	+445	+37.0	+353	+27.4
4. Bankers' deposits with RBI	−891	−11.3	+4,140	+59.1	11,148	+4,051	+57.8	+1,970	+17.7
Sources of change in Reserve Money (1+2+3−4)									
1. Reserve Bank's claims on (a+b+c+d)	**+3,757**	**+11.9**	**+8,910**	**+25.2**	**44,252**	**+6,505**	**+18.4**	**+4,128**	**+9.3**
(a) Government (Net)	+3,149	+11.8	+9,127	+30.7	38,901	+6,693	+22.5	+4,880	+12.5
(b) Scheduled commercial banks	+222	+16.6	−491	−31.5	1,067	+305	+19.6	−409	−38.3
(c) State co-operative banks	−26	−50.0	+8	+30.8	34	−4	−15.4	−7	−20.6
(d) Financial institutions (i+ii+iii)	+412	+11.5	+266	+6.7	4,250	−489	−12.3	−336	−7.9
(i) NABARD	+23	+1.9	−35	−2.9	1,184	−457	−37.5	−319	−26.9
(ii) IDBI	+256	+12.3	+254	+10.9	2,595	−20	−0.9	−5	−0.2
(iii) Others	+133	+45.7	+47	+11.1	471	−12	−2.8	−12	−2.5
2. Net Foreign Exchange Assets of RBI	**+1,420**	**+87.4**	**+299**	**+9.8**	**3,343**	**−389**	**−12.8**	**+247**	**+7.4**
3. Government's Currency Liabilities to the Public	**+57**	**+7.9**	**+99**	**+12.7**	**876**	**+22**	**+2.8**	—	—
4. Net Non-monetary Liabilities of RBI	**+2,581**	**+50.6**	**+2,991**	**+38.9**	**10,677**	**+497**	**+6.5**	**+598**	**+5.6**

× Provisional.

Source-wise, Reserve Bank's claims on Government increased almost three-fold over the previous year. A substantially lower increase in foreign exchange assets and a larger rise in net non-monetary liabilities slowed down the expansion to some extent.

Some Monetary Relationships

The ratio of currency to aggregate deposits declined on a point-to-point basis from 28.8 per cent in 1984-85 to 27.1 per cent in 1985-86. The ratio of currency to M_3 also moved down to 21.3 per cent from 22.2 per cent in the previous year. Both the ratios have shown secular declines over the past five years (Table VI-5). The incremental ratios of currency to aggregate deposits and currency to M_3 which had been increasing upto 1983-84 declined somewhat in 1984-85 and sharply in 1985-86.

The ratios based on averages of months show that both on the basis of outstandings and incremental terms, the ratio of currency to aggregate deposits and currency to M_3 followed the same trend as the ratios on point-to-point basis except for 1984-85.

The money multiplier i.e. ratio of M_3 to reserve money calculated both on point-to-point basis and average of months basis declined to 3.1 in 1985-86 from 3.2 in the previous year. The incremental money multiplier on a point-to-point basis declined sharply to 2.6 from 6.1 in 1984-85. The ratio had shown a secular decline in the preceding three years. The incremental money multiplier based on monthly average data did not show a steady trend.

Taking into consideration adjusted reserve money@ i.e. adjusted to policy changes in cash reserve ratio requirements, the movements in money multiplier on a point-to-point basis are presented in the table below.

The adjusted money multiplier thus obtained moved up from 3.7 in 1981-82 to 4.2 in 1984-85 but declined to 4.0 in 1985-86. The incremental money multiplier based on adjusted reserve money which stood at 5.9 in 1981-82 declined in the next two years to 3.5 in 1983-84 but spurted to 11.8 in 1984-85. It reverted to 3.5 in 1985-86.

Income Velocity of Money

The income velocity of M_1 i.e. ratio of net national income at factor cost (at current prices) to average M_1 declined to 4.6 in 1985-86 from 4.8 in 1984-85. It had moved in the range of 5.0-5.2 in preceding three years. The income velocity of aggregate monetary resources i.e. ratio of net national income to average M_3 de-

	As on the last Friday of				
	1981-82	1982-83	1983-84	1984-85	1985-86*
Money Multiplier M_3/ RM (adjusted)	3.7	3.8	3.8	4.2	4.0
Incremental Money Multiplier $\triangle M_3 / \triangle$ RM (adjusted)	5.9	4.7	3.5	11.8	3.5

*Provisional.

@ The adjusted reserve money is derived by adjusting for policy changes such as those relating to cash reserve ratio and incremental reserve requirements as also net defaults of commercial banks with respect to the average and incremental reserve requirements. For details of concept and methodology of working out the adjusted reserve money series, reference may be made to "Reserve Money-Concepts and Policy Implications for India" published in RBI Occasional Papers Vol.5, No.1, June 1984.

Table VI-5: Monetary Ratios

	1981-82	1982-83	1983-84	1984-85	1985-86‡
A. Point to point basis as on the last Friday of March					
(a) Currency/Aggregate deposits (Per cent)	30.3	29.7	29.6	28.8	27.1
(b) Currency/M_3 (Per cent)	23.2	22.9	22.8	22.2	21.3
Incremental Ratios					
(a) Currency/Aggregate deposits (Per cent)	16.6	26.3	28.9	24.6	17.4
(b) Currency/M_3 (Per cent)	14.5	20.8	22.2	19.4	15.1
Money Multiplier					
(a) M_1/RM×	1.2	1.2	1.1	1.3	1.2
(b) M_3/RM×	3.1	3.2	3.0	3.2	3.1
Incremental Money Multiplier					
(a) $\Delta M_1 / \Delta$ RM×	1.0	1.4	0.8	2.5	0.6
(b) $\Delta M_3/\Delta$RM×	4.2	3.9	2.3	6.1	2.6
B. Average of last Fridays of months from April-March					
(a) Currency/Aggregate deposits (Per cent)	30.4	29.5	29.0	29.2	27.4
(b) Currency/M_3 (Per cent)	23.2	22.7	22.5	22.5	21.4
Incremental Ratios					
(a) Currency/Aggregate deposits (Per cent)	20.5	23.8	26.4	30.1	17.7
(b) Currency/M_3 (Per cent)	17.1	19.3	20.8	22.9	15.1
Money Multiplier					
(a) M_1/RM×	1.2	1.2	1.2	1.2	1.2
(b) M_3/RM×	3.0	3.1	3.2	3.2	3.1
Incremental Money Multiplier					
(a) $\Delta M_1/\Delta$RM×	1.3	1.2	1.2	1.1	1.0
(b) $\Delta M_3/\Delta$RM×	3.7	4.0	3.5	3.0	3.1

× Not adjusted for changes in reserve requirements. RM = Reserve Money

‡ Provisional.

Notes: 1) Reserve money comprises of currency with the public, bank reserves i.e. cash with banks, banks' balances with RBI and other deposits with RBI.

2) Money multiplier refers to ratio of money supply or aggregate monetary resources to reserve money.

creased marginally to 1.7 from 1.8 in 1984-85. It had remained steady at 2.0 in the preceding three years (Table VI-6).

Monetary trends during April-June 1986

The first quarter of the current financial year witnessed expansion of a larger order in M_3 at Rs.7,699 crores or 6.5 per cent than that of Rs.6,527 crores (6.4 per cent) in April-June 1985; M_1 also recorded a higher rise at Rs.2,705 crores (6.2 per cent) as against Rs.2,353 crores (5.9 per cent). Of the components, perceptibly larger increases were recorded in currency with the public and in both demand and time deposits with banks than in the same period of the previous year.

Source-wise, net bank credit to Government continued to expand at a faster pace by Rs.6,794 crores (11.6 percent) as compared with Rs.5,510 crores (11.3 per cent) in April-June 1985. Whereas net RBI credit to Government recorded a lower increase, other banks' credit to Government moved up substantially in contrast to a decline in the corresponding quarter of last year. Bank credit to commercial sector showed a lower rise of Rs.1,688 crores (2.1 per cent) than that of Rs.2,196 crores (3.1 per cent). Net foreign exchange assets of the banking sector moved up by Rs.247 crores in

Table VI-6: Income Velocity of Money Supply and Aggregate Monetary Resources

Financial Year	National Income at Factor Cost (at current prices)		Currency with the Public ×		Money Supply with the Public ×		Aggregate Monetary Resources ×		Average Income Velocity of		
	Amount	Annual Percentage Increase	Amount	Annual Percentage Increase	Amount	Annual Percentage Increase	Amount	Annual Percentage Increase	Currency	Money Supply	Aggregate Monetary Resources
1	2	3	4	5	6	7	8	9	10	11	12
1981–82	1,20,691	14.1	13,879	12.2	23,919	14.6	59,766	17.3	8.7	5.0	2.0
1982–83	1,33,457	10.6	15,531	11.9	26,563	11.1	68,326	14.3	8.6	5.0	2.0
1983–84	1,57,830	18.3	18,003	15.9	30,449	14.6	80,185	17.4	8.8	5.2	2.0
1984–85	1,73,207	9.7	21,340	18.5	36,034	18.3	94,758	18.2	8.1	4.8	1.8
1985–86‡	1,90,479	10.0	23,772	11.4	41,045	13.9	1,10,838	17.0	8.0	4.6	1.7

× Average of outstandings as on last Friday of months.

‡ Provisional.

contrast to a decline of Rs.389 crores in April-June 1985.

The expansion in reserve money during the first quarter of 1986-87 was sizeably lower at Rs.3,777 crores (10.0 per cent) as compared with Rs.5,641 crores (17.9 per cent) during April-June 1985. The deceleration was largely due to a lower expansion in bankers' deposits with RBI at Rs.1,970 crores as compared with Rs.4,051 crores during the same period last year. Of the sources of reserve money, Reserve Bank's claims on Government at Rs.4,880 crores was much lower than that of Rs.6,693 crores in April-June 1985.

Currency and Coinage

During the fiscal year 1985-86, currency in circulation expanded by Rs.2,529 crores or by 10.6 per cent which was markedly lower than that of Rs.3,258 crores (15.8 per cent) during 1984-85.

Notes in circulation, the major constituent of currency, recorded a lower rise of Rs.2,431 crores as compared with Rs.3,200 crores in the previous year. The growth rate was perceptibly lower by 5.6 percentage points. Its share in total currency in circulation, however, remained unchanged at 96.7 per cent. Circulation of rupee coins and small coins on the other hand showed larger increases than in 1984-85 (Table VI-7). Their share in total currency was 1.9 per cent and 1.4 per cent, respectively, at the end of March 1986 as compared with 1.8 per cent and 1.5 per cent a year ago.

Table VI-7: Details of Currency in Circulation

(Rupees crores)

Financial Year	Notes in circulation		Circulation of rupee coins		Circulation of small coins		Currency in circulation		Of which with banks	
	Out-standing	Varia-tions over the previous year	Out-standing	Varia-tions over the previous year	Out-standing	Varia-tions over the previous year	Out-standing	Varia-tions over the previous year	Out-standing	Varia-tions over the previous year
1	2	3	4	5	6	7	8	9	10	11
1983-84	19,888	+2,931	386	+24	333	+12	20,607	+2,967	1,054	+74
	(96.5)		(1.9)		(1.6)		(100.0)			
1984-85	23,088	+3,200	426	+40	351	+18	23,865	+3,258	1,202	+148
	(96.7)		(1.8)		(1.5)		(100.0)			
1985-86‡	25,519	+2,431	503	+77	372	+21	26,394	+2,529	1,286	+84
	(96.7)		(1.9)		(1.4)		(100.0)			
Quarter ended June 1985	24,775	+1,687	443	+17	356	+5	25,574	+1,709	1,647	+445
	(96.9)		(1.7)		(1.4)		(100.0)			
Quarter ended June 1986‡	27,373	+1,854	503	—	372	—	28,249	+1,855	1,639	+353
	(96.9)		(1.8)		(1.3)		(100.0)			

‡ Provisional.

Notes: 1. Figures in brackets are proportions to total currency.

2. Data relate to last Friday.

During the first quarter of 1986-87, the expansion of currency in circulation at Rs.1,855 crores was larger than that of Rs.1,709 crores in the corresponding period of 1985-86.

During the year (data are provisional and do not cover all issue offices) the issue of notes of all denominations was of a lower order as compared with that in 1984-85. The decline was very sharp in respect of Rs.10 denomination notes. The issue of notes in the denomination of Rs.100 declined by Rs.7,724 crores over the year in contrast to an increase of Rs.2,214 crores recorded during 1984-85. The percentage of these notes in the total currency issued at 54.1 per cent at the end of March 1986 was lower by 3.3 percentage points over that a year ago (Table VI-8). The issue of notes in the denominations of Rs.50 and Rs.20 declined by Rs.1,681 crores and Rs.759 crores, respectively. Their share in total currency issue, however, increased to 19.6 per cent and 7.7 per cent by March 1986 from 16.2 per cent and 6.8 per cent in March 1985.

Table VI-8: Percentage Share of Rs.2/-, Rs.5/-, Rs.10/-, Rs.20/-, Rs.50/-, and Rs.100/- Notes in Total Currency Issued×

End of March	Percentage Share						Total
	Rs.2/-	Rs.5/-	Rs.10/-	Rs.20/-	Rs.50/-	Rs.100/-	(1 to 6)
	1	2	3	4	5	6	7
1984	2.2	4.8	8.6	7.1	17.5	56.5	96.7
1985	2.3	5.1	9.2	6.8	16.2	57.4	97.0
1986‡	3.2	5.2	2.3	7.7	19.6	54.1	92.1

× Inclusive of issue of small coins.
‡ Exclusive of figures from Ahmedabad, Bhubaneshwar, Calcutta and Hyderabad.

Notes in the denomination of Rs.10 declined both in absolute terms and as a proportion of total currency issue. The decline was of the order of Rs.1,953 crores in contrast to an increase of Rs.447 crores during the previous year. The share of these notes in total currency registered a sharp fall from 9.2 per cent in March 1985 to 2.3 per cent at the end of March 1986.

Issue of notes in the denominations of Rs.5 and Rs.2 recorded decline of Rs.645 crores and Rs.195 crores respectively during the year. However, their share in total currency increased by 0.1 and 0.9 percentage points, over the year.

Demonetisation of Notes

Of the Rs.145.23 crores of high denomination notes in circulation as on January 16, 1978, when they were demonetised, notes worth Rs.125.11 crores including those declared by banks and Government treasuries were tendered for exchange to the Reserve Bank. The value of notes passed for exchange into lower denomination notes upto the end of May 1986 was of the order of Rs.119.19 crores.

Issue of Notes and Coins

Decimal coins of various denominations valued at Rs.44.03 crores were minted during the financial year 1985-86. Coins in commemoration of the late Prime Minister Smt. Indira Gandhi in the denominations of Rs.100, Rs.20, Rs.5 and 50 paise were issued by the Government of India during the year. While the coins in the denominations of Rs.5 and 50 paise were issued for regular circulation, the coins in the denominations of Rs.100 and Rs.20 in proof/

uncirculated sets were sold by the Government Mint in Bombay.

Commemorative coins with the inscription "International Youth Year — 1985" in the denominations of Rs.100, Rs.10 and Re.1 were also issued by the Government during the year. The coin in the denomination of Re.1 was issued for regular circulation; those in the denomination of Rs.100 and Rs.10 in proof/ uncirculated sets were sold by the Government Mint in Calcutta. Besides, 25 paise coins with the theme "Forestry for Development" were also issued during the year, for general circulation.

Lost, Destroyed and Mutilated Notes

During 1985-86, about 2 lakh claims were received in respect of lost, destroyed and mutilated notes involving 233.30 lakh pieces. The total amount involved in these claims was Rs.18.75 crores and claims approved for payment Rs.18.39 crores. Payment against approved claims (including those received/ approved during the previous year) totalled Rs.18.97 crores (for details please see statement 122 of Vol.II).

Note Forgeries

The total number of forged notes, including one rupee notes detected at the issue offices of the Reserve Bank, branches of other banks and seized by the police throughout the country which had dropped substantially from 1,12,947 pieces in 1983 to 12,229 pieces in 1984 rose to 20,391 pieces in 1985. The value of the forged notes during the year came to Rs.15 lakhs (for details reference may be made to statement 123 of Volume II).

Trends in Bullion Prices

During the financial year 1985-86, bullion prices in the domestic market showed an increase of 1.5 per cent, based on a point-to-point comparison of monthly average levels (March 1986 over March 1985). However, movements in the annual average prices (during 12 months ended March 1986) indicate a larger price increase of 7.1 per cent. Gold prices in the international market exhibited a different trend. Gold displayed a distinctly firm trend with a price increase of 8.7 per cent on the basis of monthly average quotations; but annual average prices registered a decline of 0.3 per cent. The monthly average and annual average prices in the Bombay market were higher than the London market prices by 56 per cent and 65 per cent respectively, during 1985-86.

In the case of silver, a two-way price movement was noticed during the year under review. Prices in the domestic market exhibited a distinctly firm trend but in international markets they ruled easy.

Gold

Domestic Market

In the Bombay market, gold prices by and large exhibited a firm trend during the financial year 1985-86. Gold initially moved up from Rs.2,130 per 10 grammes at the end of March 1985 to Rs.2,235 per 10 grammes on April 24, 1985 — the highest recorded during the year — mainly on account of restricted supplies, good seasonal demand and encouraging upcountry advices. This uptrend was reversed thereafter. As a result of successive decline in prices, gold touched the lowest level for the year at Rs.2,025 per 10 grammes on June 5, 1985. This decline was due to improved supplies from increased arrivals of smuggled gold coupled with poor seasonal demand and weak overseas advices. Subsequently, gold prices went up and the firm trend continued upto November, barring October when there was a temporary easing of prices. This uptrend was due mainly to a pick up in seasonal demand in the face of limited supplies on account of strict vigilance against smuggling and encouraging upcountry and overseas advices. Thereafter, a declining trend was noticed in December when prices touched Rs.2,070 on December 17, 1985 which was on account of a fall in demand and cancellation of licences of some big goldsmiths consequent to raids conducted by Gold Control

Authorities. This easy trend, however, was short-lived. Gold resumed its uptrend during the rest of the period under review and closed at Rs.2,140 on March 31, 1986. The monthly average gold price for March 1986 stood higher at Rs.2,128 per 10 grammes as compared with Rs.2,097 per 10 grammes in March 1985. The annual average for the 12 months ended March 1986 at Rs.2,125 showed a larger variation over the annual average of Rs.1,984 for the previous year.

International Markets

In the London market, gold prices moved up initially from $329.80 per fine ounce on March 29, 1985 to $331.50 on April 16, 1985 but showed a declining trend thereafter till July with prices reaching $310.40 per fine ounce — lowest for the year — on July 3, 1985. This declining trend was attributed mainly to a firmer US dollar and investors' fears that OPEC meeting at Vienna may not succeed in curbing surplus oil production and oil price cuts by Soviet Union and Oman. A brief spell of firmness was witnessed in August with prices touching $339.30 on August 28, 1985 due to the threatened gold miners' strike and political tensions in South Africa. This was followed by a steady trend with an easy undertone during September-December when prices fluctuated in the range of $315.50 — $327.00 during this period. Thereafter, a spurt in price to $361.75 on January 27, 1986 — the highest for the year — was in evidence which was on account of weakening of the U.S. dollar following fears of Arab disinvestment in US due to heightened tension in the Middle East. Speculation about a joint cut in interest rates by the Group of Five Countries also aided the sentiment. Demand for gold picked up following the fall in Wall Street and other equity markets during the period coupled with increased demand from US and Japan for minting gold coins. During February-March, gold prices fluctuated in the range of $329.50 — $352.90 and ended the year at $345.50 on March 27, 1986. The monthly average price of gold for March 1986 at Rs.1,366 per 10 grammes was higher than the average of Rs.1,256 for March 1985. However, the annual average at Rs.1,290 was marginally lower than that of Rs.1,294, a year ago.

Spread between Domestic and International Prices

The monthly average gold prices in Bombay (based on closing quotation) and in London (based on morning fixing converted into rupees) during 1985-86 are indicated in Table VI-9. The premium on gold price in the Bombay market over London was lower at 55.8 per cent in March 1986 compared with 67.0 per cent in March 1985.

April-June 1986 Position

In Bombay, the firm trend witnessed in gold prices towards the close of financial year 1985-86 continued in April and gold reached an all-time high of Rs.2,260 per 10 grammes on April 21, 1986. The uptrend was due mainly to better demand and higher upcountry advices in the wake of limited supplies. Thereafter, higher supplies in the context of slack demand induced a downward trend and prices eased gradually reaching the lowest level during the quarter of Rs.2,080 on June 12, before closing at Rs.2,115 on June 30. At this level gold prices were lower by Rs.25 per 10 grammes than the end-March level. In the London market, gold which had opened at $333.70 per fine ounce on April 1, 1986 ruled generally steady during the quarter and closed at $345.50 on June 30, 1986.

Silver

Domestic Market

In the Bombay market, silver prices exhibited a firm trend during the financial year 1985-86. The price of the white metal went up from Rs.3,955 per kg. on March 29, 1985 to Rs.4,120 on April 26 — highest for the period — in the wake of good seasonal demand, encouraging upcountry and overseas advices and paucity of supplies. Subsequently, prices receded to Rs.3,730 per kg. — lowest for the period — on

Table VI-9: Gold Prices in Bombay and London
(Monthly Averages)

(Rs. per 10 grammes)

Period	Bombay	London	Spread between Bombay and London prices	
			Absolute	Percentage
1	2	3	4	5
March 1971	191.53	93.73	+97.80	+104.3
March 1976	535.04	388.71	+146.33	+37.6
March 1980	1348.48	1463.82	−115.34	−7.9
March 1981	1641.91	1320.27	+321.64	+24.4
March 1982	1670.52	988.89	+681.63	+68.9
March 1983	1774.96	1353.43	+421.53	+31.1
March 1984	1963.07	1364.19	+598.88	+43.9
March 1985	2097.27	1256.06	+841.21	+67.0
March 1986	2128.43	1365.92	+762.51	+55.8

Note: Based on closing quotations for Bombay market and morning fixing for London market.

Table VI-10: Gold Prices in Bombay and London
(Financial year Averages)

(Rs. per 10 grammes)

Financial Year	Bombay	London	Spread between Bombay and London prices	
			Absolute	**Percentage**
1	2	3	4	5
1970-71	184.96	88.71	+96.25	+108.5
1975-76	544.99	416.06	+128.93	+31.0
1980-81	1522.44	1484.67	+37.77	+2.5
1981-82	1719.17	1209.94	+509.23	+42.1
1982-83	1722.54	1250.38	+472.16	+37.8
1983-84	1858.47	1342.06	+516.41	+38.5
1984-85	1985.92	1293.78	+690.14	+53.3
1985-86	2125.47	1289.72	+835.75	+64.8

Note: Based on closing quotations for Bombay market and morning fixing for London market.

May 30, 1985. This was due to fall in seasonal demand and weaker overseas advices in the wake of improved supplies. Prices fluctuated thereafter in the range of Rs.3,750 — Rs.3,885 per kg. during June-July and firmed up to Rs.3,905 per kg. on August 19, 1985. After a brief easy trend in September, prices moved up continuously to reach Rs.4,048 per kg. on November 30, 1985 on good festival demand and restricted supplies. In the subsequent two months, however, prices ruled steady around Rs.3,960 per kg. Though the price declined in February for a brief period, it spurted to Rs.4,054 per kg. on March 25, 1986 due to lack of arrivals, good demand and encouraging overseas advices. Increased demand from speculative buyers also aided the sentiment. Silver closed for the year at Rs.4,015 per kg. on March 31, 1986. Monthly average silver price for March 1986 stood at Rs.3,999 per kg. as compared with the average of Rs.3,937 per kg. for March 1985. The annual average price at

Rs.3,918 recorded a substantial increase over the corresponding average of Rs.3,593 last year.

International Markets

In the international market, silver prices displayed a distinctly downward trend, interspersed with occasional spurts. The prices in New York market which initially moved up from 667 cents per ounce on March 29, 1985 to 671.50 cents per ounce on April 11, 1985 declined thereafter, to 590.50 cents per ounce on July 3, 1985. This decline was due mainly to the strengthening of the dollar and expectations of better performance of the U.S. economy. The sentiment was aided further by expectations of a decline in oil prices. The prices fluctuated thereafter in the range of 588.00-638.50 cents per ounce during August-November, 1985. Barring minor fluctuations in December-January, silver price declined during the rest of the year and touched 533.00 cents per ounce on March 31, 1986 — the lowest for the year — due mainly to the strengthening of the U.S. dollar and bearish sentiment arising from a fall in oil prices. Deferred commitments by traders due to London tin crisis also aided the sentiment. In the New York market, the monthly average and the annual average silver prices stood at Rs.2,226 per kg. and Rs.2,396 per kg. respectively, as compared with the average levels of Rs.2,490 and Rs.2,810 respectively, a year ago.

Silver prices in Bombay were quoted at a premium over New York and London throughout 1985-86. The premium based on the monthly average prices in Bombay which was 58.1 per cent and 59.0 per cent, respectively, in March 1985 widened to 79.6 per cent and 78.8 per cent, respectively, during March 1986 (Table VI-11).

April-June 1986 Position

During the first quarter of 1986-87 while silver ruled steady in the Bombay market, an easy trend was noticed in the international market. In the Bombay market, price of the white metal hardened in April which continued till first week of May on encouraging upcountry advices and increased demand. Commencing with the second week of May, price ruled generally easy till end-June barring occasional spurts. In Bombay, silver registered a net loss during the quarter of Rs.41 per kg.(−1.0 per cent). In New York and London markets the decline in price during the quarter was 20 cents (−3.8 per cent) and 49 pence (−13.0 per cent), respectively.

Table VI-11: Silver Prices in Bombay, London and New York (Monthly Averages)

(Rupees per kg.)

Period	Bombay	London	New York	Price difference between Bombay and London		Price difference between Bombay and New York	
				Absolute	Percentage	Absolute	Percentage
1	2	3	4	5	6	7	8
March 1980	2975.00	6584.06	6422.83	−3609.06	−54.8	−3447.83	−53.7
March 1981	2666.68	3247.17	3259.76	−580.49	−17.9	−593.08	−18.2
March 1982	2683.61	2163.98	2158.84	+519.63	+24.0	+524.77	+24.3
March 1983	3033.80	3424.31	3416.07	−390.51	−11.4	−382.27	−11.2
March 1984	3547.88	3333.78	3335.30	+214.10	+6.4	+212.58	+6.0
March 1985	3937.05	2475.54	2490.48	+1461.51	+59.0	+1446.57	+58.1
March 1986	3999.00	2236.96	2226.34	+1762.04	+78.8	+1772.66	+79.6

Note: The quotations in pence per troy ounce in London and cents per troy ounce in New York have been converted into Rupees per kg. The par value of pence/sterling is computed at the average of Reserve Bank's spot buying and selling rates and that of cent/dollar at the cross rates based on the daily average of spot buying and selling rate in London. The quotations are based on spot exchange rate.

Table VI-12: Silver Prices in Bombay, London and New York (Financial year Averages)

(Rupees per kg.)

Financial Year				Price difference between Bombay and London		Price difference between Bombay and New York	
	Bombay	London	New York	Absolute	Percentage	Absolute	Percentage
1	2	3	4	5	6	7	8
1979-80	2297.80	4588.74	4523.67	−2290.94	−49.9	−2225.87	−49.2
1980-81	2616.63	4051.06	4020.30	−1434.43	−35.4	−1403.67	−34.9
1981-82	2636.06	2623.66	2627.05	+12.40	+0.5	+9.01	+0.3
1982-83	2798.34	2824.25	2829.74	−25.91	−0.9	−31.40	−1.1
1983-84	3505.80	3515.59	3516.66	−9.79	−0.3	−10.86	−0.3
1984-85	3593.59	2806.70	2810.19	+786.89	+28.0	+783.40	+27.9
1985-86	3918.35	2395.06	2396.35	+1523.29	+63.6	+1522.00	+63.5

Note: The quotations in pence per troy ounce in London and cents per troy ounce in New York have been converted into Rupees per kg. The par value of pence/sterling is computed at the average of Reserve Bank's spot buying and selling rates and that of cent/dollar at the cross rates based on the daily average of spot buying and selling rate in London. The quotations are based on spot exchange rate.

Note:

During the financial year 1985-86 domestic production of gold at 1,874 kgs. recorded a fall of 7.9 per cent over the production of 2,034 kgs. in 1984-85. This was on top of a decline of 1.4 per cent in the previous year. The output of silver at 28,096 kgs. during 1985-86 was higher by 20.7 per cent than that of 23,275 kgs. in 1984-85 and an increase of 18.6 per cent recorded in the preceding year.

Chapter VII

Banking Developments

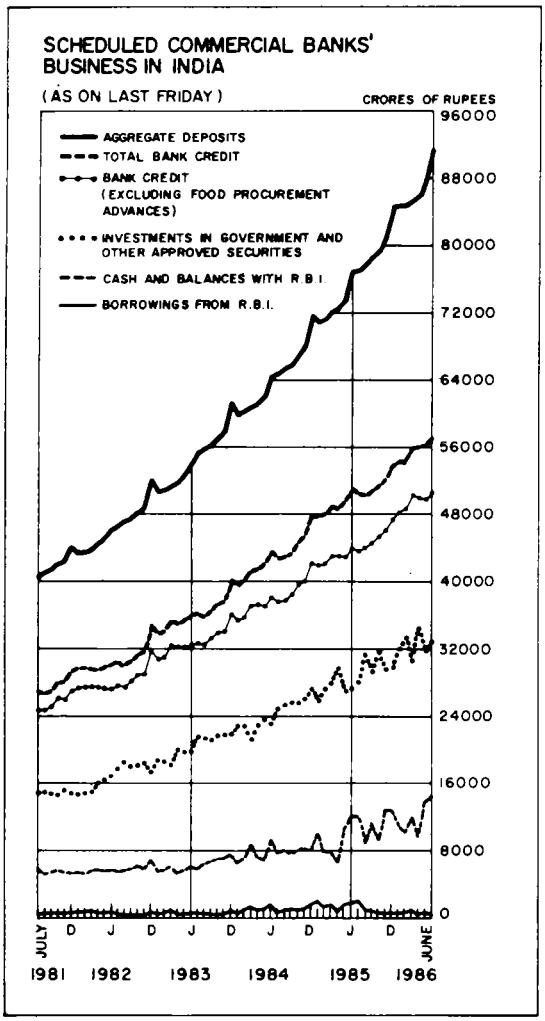
OVERALL REVIEW

Scheduled commercial banks' operations during 1985-86 (April-March) indicated that on a point-to-point basis aggregate deposits recorded an all-time high in absolute terms. Bank credit and banks' investments also registered increases. However, there was a deceleration in the rate of growth of these variables.

On an average basis, while aggregate deposits recorded a larger increase, both in absolute and percentage terms, bank credit witnessed a deceleration in both absolute and percentage terms. Banks' investment portfolio recorded a larger increase in absolute terms while its pace of growth decelerated.

Against the backdrop of a large overhang of reserve money and a high rate of growth of overall liquidity (M_3) during the past three years, the focus of credit policy in 1985-86 was on containing the overall growth of liquidity to a rate lower than that for 1984-85. At the same time banks were to ensure that credit requirements for food procurement and other productive purposes were met without fuelling inflationary expectations. Accordingly, a number of measures were initiated during the year. In order to provide adequate resources for vital public sector investments, SLR was raised from 36 to 37 per cent in two stages in June and July 1985. It was also decided to release to banks on October 26, 1985, one-third of the remaining cash balances maintained under the 10 per cent incremental CRR. Further, food credit refinance limit was raised from Rs.4,600 crores to Rs.5,800 crores in three stages between August and September 1985. In order to bring about an alignment between refinance interest rates and other parameters, the rates on stand-by and food credit refinance were also jacked up during 1985. The year also witnessed rationalisation of selective credit control measures.

There was further progress in the attainment of targets set for banks in the deployment of credit. As against the target of 40 per cent of total advances to priority sectors to be attained by March 1985, such advances made by 50 major banks constituted 40.9 per cent of total net bank credit as at the end of March 1986. Advances to agriculture formed 17.2 per cent of net bank credit as at the end of March 1986, thus exceeding the sub-target of 16 per cent set for March 1987. The credit-deposit ratio of 60 per cent which banks are expected to achieve in respect of rural and semi-urban offices was exceeded in the case of rural offices, the ratio at the end of June 1985 being 65.6 per cent. However, the performance of semi-urban offices



with a ratio of 52.8 per cent fell considerably short of the target. In regard to lending under the Differential Rate of Interest Scheme, the target of 1 per cent was over-fulfilled and the ratio stood at 1.15 at the end of December 1985. Advances granted by public sector banks to the beneficiaries under the New 20-point programme outstanding as on the last Friday of March 1986 amounted to Rs.7,107 crores in 140 lakh borrowal accounts.

In the field of branch expansion, a major development was the announcement of a new branch licensing policy covering the five year period April 1985 to March 1990 which would be co-terminus with the Seventh Five Year Plan. The policy aims at achieving a coverage of 17,000 population (as per the 1981 Census) per bank office in the rural and semi-urban areas of each block besides providing special attention to hilly tracts, sparsely populated regions and tribal areas. Out of the total number of 1,107 branches opened between July 1985 and March 1986, more than three-fourths were in unbanked centres. Rural and semi-urban offices accounted for 89 per cent of the new offices opened during the period.

CREDIT POLICY

The basic objective of credit policy continued to be the moderation of the rate of growth of overall liquidity (M_3) in the economy. This policy stance was taken to avoid resurgence of inflation especially in the context of the large increase in the volume of reserve money and overall liquidity during the past three years. Accordingly, it was decided to restrict the overall growth in liquidity in 1985-86 to a rate lower than that in 1984-85.

During the period under review, no new policy measures were introduced and the main instruments of credit policy continued to be reserve ratios, refinance facilities, interest rates and selective credit control regulations. The emphasis was generally on rationalisation of existing measures and their effective implementation. This is evident from the fact that unlike in the previous three years when changes in the reserve ratios constituted the main instrument of credit policy, during the year under review, there were no increases in reserve requirements other than the increase in SLR effected in June and July 1985. Nevertheless, reserve requirements continued to be a major policy instrument. Greater emphasis has been laid on effective maintenance of SLR on a daily basis with the introduction of a graduated scheme of penalties for defaults. In the light of a detailed review of the Credit Authorisation Scheme (CAS) necessitated by the increase in the volume and size of financial transactions,

certain changes were introduced in respect of the cut-off point for working capital limits for manufacturer/trader exporters and the discretionary powers of banks to sanction *ad hoc* limits. Changes were also made in the 'fast track' scheme to impart greater flexibility in its use without dilution of financial discipline.

The first half of 1985-86 was envisaged as a period to conserve resources and rectify shortfalls, if any, in the maintenance of reserve requirements. Banks were to ensure an effective and smooth transition to proper maintenance of SLR on a daily basis. Policy measures were announced in April 1985 to contain the growth of overall liquidity and to meet the likely credit requirements during the first six months of 1985-86. The threshold levels over which 100 per cent refinance is provided to banks for food credit were revised and the refinance rates which had been static for quite sometime were also appropriately aligned. The selective credit controls which had, over the years, become complex were simplified keeping in view the central objective of preventing misuse of bank credit for speculative hoarding of essential commodities. The various measures taken by the Bank during the year are enunciated below.

April 1985

It may be recalled that after reviewing the monetary and credit developments and in the light of expectations of developments in the first half of 1985-86, the following measures were announced at the beginning of April 1985.

Food credit refinance

Taking into account the overall growth of liquidity and the likely credit requirements during the first half of 1985-86, the threshold for 100 per cent food credit refinance was raised from Rs.4,600 crores to Rs.5,800 crores in three stages between August 2, and September 27, 1985.

Refinance rates

The interest rates on refinance by RBI had remained unchanged for a number of years while other parameters had undergone significant changes. With a view to bringing about a proper alignment in the interest rate structure, the rate on food credit refinance was raised from 10 per cent to 11.5 per cent per annum effective October 1, 1985. The interest rate on stand-by refinance against the collateral of Government and trustee securities was also raised from 11 per cent to 12.5 per cent effective April 8, 1985; this increase is a sequel to the gradual increase in coupon rates on Government securities witnessed in recent years.

Deposit rates

The number of prescribed maturity periods for fixed deposits was reduced from nine to five with effect from April 8, 1985. Individual banks were also given the freedom to offer interest rates not exceeding 8.0 per cent per annum on term deposits for maturities of less than one year and banks were required to adopt uniform rates at all their branches and for all customers. The deposit rate for one year and above but less than two years was raised from 8.0 per cent to 8.5 per cent. However, with effect from May 27, 1985 the rates for maturities upto 90 days were restored to the pre-April 8, 1985 level. The rate for maturities of 91 days to less than six months was fixed at 6.5 per cent and that for 6 months to less than one year at 8 per cent.

July 1985

Graduated scheme of penalties for shortfalls in maintenance of reserve requirements

In terms of the provisions of the Banking Laws (Amendment) Act, 1983, which have come into effect from March 29, 1985, penalties were prescribed for daily shortfalls in the maintenance of the statutory liquidity ratio (SLR). The penal interest on the amount of the daily shortfall is 3 per cent above Bank Rate or 5 per cent above Bank Rate, depending on the duration for which the shortfall continues.

The monitoring of daily maintenance of SLR in the early months of 1985-86 revealed that a number of banks had large shortfalls and were facing heavy penalties in the period subsequent to March 29, 1985. With a view to giving banks more time to rectify these shortfalls and to ensure the continued flow of credit for meeting the genuine productive needs of the economy, a comprehensive scheme of phased introduction of penalties on SLR shortfalls was announced on July 23, 1985, the key elements of which are as follows:

(i) A general waiver of penalties was granted upto September 13, 1985 on daily SLR shortfalls and penalties were imposed on such shortfalls from September 14, 1985.

(ii) Thereafter, requests for waiver of penalties were favourably considered in the case of daily shortfalls upto 4 per cent of the amount of the SLR required to be maintained. Banks were advised to undertake advance planning of their operations with the clear understanding that this band of waiver would be gradually reduced and eventually extinguished.

(iii) Daily shortfalls in excess of the 4 per cent band were considered as daily defaults subject to the levy of penal interest. Further, of the amount of the defaults so determined, only a stipulated portion was subject to penal interest charges. The proportion of daily defaults subject to penal interest was 25 per cent effective September 14, 1985, 50 per cent effective October 26, 1985, 75 per cent effective April 26, 1986 and 100 per cent effective June 21, 1986.

Additional interest rate on refinance in cases of reserve requirement defaults

Upto March 29, 1985, an additional interest of 3 per cent was being charged on the portion of refinance accommodation from the Reserve Bank equivalent to the shortfall in the maintenance of statutory liquidity and cash reserve ratios. As a sequel to the phased introduction of penalties on the daily maintenance of SLR, the following changes were made:

(i) The additional interest of 3 per cent on the portion of refinance equivalent to the average CRR shortfall was imposed only on alternate Fridays between March 30, 1985 and September 13, 1985. With effect from September 14, 1985, the additional 3 per cent interest is imposed on the portion of refinance equivalent to the average CRR shortfall on each day of the fortnight during which there is a CRR shortfall.

(ii) In the case of SLR shortfalls, during the phased introduction of penalties, between March 30, 1985 and June 20, 1986, there would be no additional interest on refinance. With effect from June 21, 1986, the additional interest of 3 per cent would be imposed on each day on the portion of refinance from the Reserve Bank equivalent to the daily SLR shortfalls.

October 1985

Against the backdrop of the developments during the first half of 1985-86 and an assessment of the likely credit requirements in the second half of 1985-86, the following measures were announced on October 25, 1985:

Release of impounded cash balances

In order to enable banks to meet the likely increase in demand for credit during the busy season, it was decided to release on October 26, 1985 a second instalment of one-third of the cash balances impounded between January 14, 1977 and October 31, 1980. The amount so released was around Rs.495 crores. The first instalment of one-fifth of the cash balances had been released during October-December 1984.

SLR on NRE accounts

Effective October 26, 1985, the statutory liquidity ratio for Non-Resident (External) Rupee Accounts (NRE) was reduced from 37 per cent to 25 per cent, thus bringing it on par

with SLR requirements in respect of FCNR deposits. This was expected to augment the resources of banks by about Rs.360 crores.

Bringing forward of export refinance base

The present limit for export refinance to banks equivalent to 100 per cent of increase in export credit over the monthly average level of credit in 1983 was modified with effect from November 22, 1985 and such refinance was linked to the increase in export credit over the monthly average level of credit in 1984.

Interest rate on banks' cash balances held with the Reserve Bank

The rate of interest payable on eligible cash balances maintained with the Reserve Bank was raised from 10 per cent to 10.5 per cent per annum effective October 26, 1985 with a view to enabling the banks to adequately cover the cost of funds and to increase their reserves.

Discretionary refinance

Banks had been provided with a little over Rs.230 crores of discretionary refinance to enable them to tide over short-term liquidity problems. The resources position of banks increased by Rs.855 crores on October 26, 1985 as a result of the release of a part of the impounded cash balances and the reduction of the SLR on NRE accounts. Banks were advised to use the additional resources made available to them to repay the entire discretionary refinance outstanding and also to make up any shortfalls in the maintenance of SLR beyond the band of 4 per cent of the amount of SLR required to be maintained.

April 1986

A review of the credit policy was undertaken in April 1986. It was noted that as a result of the various policy measures adopted, there was a slowdown in the rate of expansion of overall liquidity (M_3) and a perceptible deceleration in the rate of inflation in 1985-86. However, the growth of reserve money in 1985-86 was substantially higher than that in the previous year. In the interest of containing inflationary pressures, it was considered necessary to restrict the rate of growth of M_3 in 1986-87 to a level below the average for the previous three years. It was also assumed that with a normal monsoon and favourable industrial climate, the overall rate of growth of the economy in 1986-87 could be around 5 per cent, higher than in 1985-86.

Consistent with the objective of a slowdown in the overall growth of liquidity, a working estimate of Rs.15,000 crores (17.6 per cent) of deposit growth in 1986-87 was assumed for scheduled commercial banks. It was also estimated that the growth of deposits would be approximately equal during each half of the year.

The 1986 *rabi* output was expected to be good and with a large procurement on the anvil, banks were advised to plan for an increase in food credit of about Rs.1,200 crores between the end of March and the end of June 1986 and thereafter for a decline of Rs.900 crores in the quarter ending September 1986. It was expected that scheduled commercial banks would be able to provide for an increase in credit of Rs.2,300 crores in the first half of 1986-87 (Rs.300 crores for food and Rs.2,000 crores for non-food).

Thus, the basic stance of credit policy was to ensure that credit requirements for food procurement were fully met and all productive activity contributing to increased output would be financed by banks out of their own resources. Further, the first half of the year was also to be a period of consolidation for the banks and they were advised to rectify shortfalls, if any, in the maintenance of reserve requirements. The following measures were announced on April 3, 1986.

Statutory liquidity ratio — Band of waiver

In July 1985, when the scheme of phased introduction of penalties on SLR defaults was announced it was indicated that there would be a gradual phasing out of the SLR band of

waiver and accordingly the following phased reduction of the 4 per cent band was prescribed.

Effective Date	Band of Waiver (Shortfall as a percentage of amount of SLR required to be maintained)
July 19, 1986	3
August 16, 1986	2
September 13, 1986	1
October 11, 1986	0

It was also decided to extend the concession of not imposing the 3 per cent additional interest on refinance from the Reserve Bank equivalent to the SLR shortfall further from June 21, 1986 to October 10, 1986. Effective October 11, 1986, the additional interest of 3 per cent would be imposed on a daily basis on the portion of refinance from the Reserve Bank equivalent to the amount of the daily SLR shortfall.

Other Policy Measures

The more important among other policy guidelines/instructions issued to banks during the financial year 1985-86 are given below:

Deposit rates

Interest rates on non-resident deposits

In the context of a noticeable decline in interest rates abroad, particularly in the United States, interest rates on term deposits of one year and above under the Foreign Currency (Non-Resident) Accounts (FCNR) Scheme were revised downwards with effect from August 22, 1985. Prior to this date, the rates for such non-resident deposits were 2 per cent higher than those prescribed for domestic deposits. In February 1986 and again in May 1986, these rates were reduced further in view of the decline in interest rates abroad. It was also specified that effective May 5, 1986, deposits under FCNR Scheme should not be accepted for maturity above 3 years. The interest rates on Non-Resident (External) Rupee (NRE) Accounts, however, were kept unchanged at two per cent above the rates for domestic deposits. The rates for FCNR and NRE deposits are shown in the Table below:

Table VII-1: Interest rates on non-resident deposits

(Per cent per annum)

Maturity	FCNR Rates				NRE Rates
	Effective April 8, 1985	Effective August 22, 1985	Effective February 10, 1986	Effective May 5, 1986	Effective April 8, 1985
1 year and above but below 2 years	10.5	9.5	9.5	8.5	10.5
2 years and above but below 3 years	11.0	10.5	10.0	9.0	11.0
3 years and above but below 5 years	12.0	11.0	10.5	10.0*	12.0
5 years and over	13.0@	12.0@	11.0@		13.0

* FCNR Deposits can be accepted at this rate only for 3 years' maturity.
@ FCNR Deposits could be accepted at these rates only for 5 years' maturity.

Premature withdrawal and rests for interest payment

On July 11, 1985 the Reserve Bank clarified that interest payable on premature withdrawal under Foreign Currency (Non-Resident) Accounts (FCNR) Scheme would be governed by the instructions applicable to local deposits. Further, in respect of FCNR deposits of one year or more, interest could be paid at mini-

mum rest of a half-year and on compounding basis at half-yearly rests. Deposits under Non-Resident (External) Rupee Accounts would be governed by the directives relating to local rupee deposits.

Housing finance

During the year 1985, the overall quantum earmarked for housing finance to be provided by the banking system to the various categories of borrowers remained unchanged at Rs.150 crores. In consonance with the decision to allow banks to lend directly to State level agencies for construction activities meant for SC/ST and EWS of the society, the following agencies were allowed to be financed for their housing programmes, within the above overall target, during the year:

Name of the Bank	Name of the Agency	Amount (Rupees in crores)
1. State Bank of India	Karnataka Housing Board	4.00
2. -do-	Harijan Evam Nirbal Varg Avas Nigam Ltd., Uttar Pradesh	3.00
3. Syndicate Bank	A.P. State Housing Corporation Ltd.	5.63

Besides, in April 1986, Canara Bank was authorised to extend in consortium with other 15 banks a term loan of Rs.10 crores to Kerala State Housing Board for rehabilitation of flood victims in that state. This amount would be within the overall allocation for housing finance from the commercial banking system during the year 1986.

Crop insurance scheme

Mention was made in last year's Report regarding the crop insurance scheme introduced by the Government from the 1985 *Kharif* season for major crops viz. rice, wheat, millets, oilseeds and pulses. The scheme was initially implemented in 12 States which had agreed to it. The scheme is being implemented from *Rabi* 1985-86 in Rajasthan, Jammu & Kashmir, some North-Eastern States and Union Territory of Delhi. The scheme will continue during the Seventh Plan period on the existing terms and conditions and will cover all risks except war and nuclear risks.

Transfer of borrowal accounts

The restrictions on transfer of borrowal accounts from one bank to another and the obligation of the transferee bank to seek the consent of the transferor bank for the take-over has been dispensed with for all borrowal accounts with limits upto Rs.5 crores as against the earlier limit of Rs.1 crore, subject to certain stipulations. An important condition would be that all liabilities including contingent liabilities should be taken over by the transferee bank.

Financial assistance to Ex-servicemen

The Scheme of Preparing Ex-servicemen for Self-Employment (PEXSEM) introduced by the Directorate General of Resettlement (Ministry of Defence) in 1983-84 on a pilot basis in six districts of the country to promote self-employment among ex-servicemen was forwarded by RBI to banks for providing financial assistance. The scheme envisaged training the retiring and retired defence personnel below the rank of officers settled in rural areas towards self-employment in agriculture and other productive activities. Accordingly, banks were advised in December 1985 to sanction on merit, loans upto Rs.25,000 after satisfying themselves about the viability of the project. Banks are not to insist on collateral security /third party guarantee; they may secure the advances by pledge/hypothecation/mortgage of assets created out of the loans.

Financial assistance to persons affected by natural calamities, etc.

As referred to in last year's Report, the Reserve Bank issued guidelines to banks in Au-

gust 1984 for providing relief and rehabilitation assistance to people affected by natural calamities. These measures have since been made applicable in the case of victims of riots/disturbances also. Accordingly, during the financial year 1985-86, banks were advised to provide assistance to riot victims in Ahmedabad and other parts of Gujarat, victims of Bhopal gas tragedy and persons affected by floods in Madras city.

Further, in April 1986, the Reserve Bank issued revised guidelines to banks extending credit facilities to borrowers in Punjab, Haryana and Chandigarh in view of the exceptional circumstances prevalent in these areas. The revised guidelines authorised the officials to sanction on merits additional limits to the extent of 25 per cent of the existing working capital limits, subject to a ceiling of Rs.10 lakhs. Additional limits in excess of Rs.10 lakhs should be cleared by higher authorities within a period of two weeks. In the case of borrowers coming within the purview of CAS, as per the revised cut-off point, banks have already been authorised to sanction additional limits to the extent of 10 per cent of the existing working capital limits or 25 per cent of the existing packing credit limits subject to an overall limit of Rs.2 crores. Further, branch managers were authorised to extend the period for the realisation of bills purchased and advance bills for collection by one month and also to reduce the margin in deserving cases by 10 per cent in the case of commodities not covered by selective credit control directives. The repayment of term loans in deserving cases may be re-scheduled by extending the period upto one year. These relaxations to the borrowers are valid upto June 30, 1987.

Interest rate on pre-shipment credit

Lending rates in respect of pre-shipment credit were revised as under:

	Rate of interest per cent per annum (with effect from)	
	March 1, 1986	August 1 1986
a) (i) Upto 180 days	12.0	9.5
(ii) Beyond 180 days, and in all, upto 270 days (with the prior approval of the R.B.I.)	14.0	11.5
b) Against cash incentives, etc., covered by ECGC guarantee upto 90 days	12.0	9.5

Lending against deposits and investments made under the special schemes for non-residents of Indian nationality/origin

All Indian banks having foreign branches and foreign banks operating in India were advised in August 1985 that the objective of the various non-resident deposit and investment schemes was essentially to attract the genuine savings of the non-resident Indians and that the banks should ensure that mobilisation of only this kind of enduring funds was facilitated under the schemes. Hence, banks should discourage granting advances or issuing back-up guarantee in favour of other banks for extending credit to clients of Indian nationality/origin, to enable the borrowers to make deposits in India under FCNR schemes or to make investments in shares and debentures of Indian companies and hold such deposits/investments as collateral against the guarantees and/or loans extended by the branches outside India.

Rate of interest and margin on loans/advance against deposits

Banks were advised in August 1985 that in cases where the loan/advance granted to borrowers was in excess of 75 per cent of the amount of deposit, the banks should not justify such violation by charging split rates of interest. They were to ensure that necessary margin was always maintained and that interest was charged on all advances extended against

the borrowers' own term deposits only at a rate which was 2 per cent in excess of the rate allowed on the term deposits. In the case of advances/loans granted against the security/ collateral security of term deposits standing in the name of third party, banks were to charge interest at the rates as stipulated in the directives on interest rates on advances depending upon the category of the borrowers and the purpose of advance.

Overdues in bank advances

In view of the upward trend observed in overdues in advances, all scheduled commercial banks were advised by the Reserve Bank in July 1985 to make concerted efforts for prompt recoveries of dues and ensure that the total amount of overdues as at end-December 1985 did not exceed the end-December 1983 level. Thereafter, banks should aim at further reduction in overdues over the preceding year's level.

Credit monitoring system — Introduction of health code for borrowal accounts in banks

All Indian scheduled commercial banks were instructed in November 1985 to introduce a comprehensive and uniform grading system (called Health Code System) which would indicate the quality (or health) of individual advances as also the extent of advances causing concern in relation to total advances. The grading system has been envisaged for the purpose of effective monitoring and follow-up of ever-growing volume of bank credit and also for making adequate provision for bad and doubtful debts. Under this system, each bank would classify its advances into eight categories, with a health code assigned to each borrowal account, viz., (i) Satisfactory, (ii) Irregular, (iii) Sick-viable-under nursing, (iv) Sick-non-viable/sticky, (v) Advances recalled, (vi) Suit-filed accounts, (vii) Decreed debts, (viii) Bad and doubtful debts.

The health code system is to be adopted to begin with, for all accounts with limits/outstanding balances of Rs.5 lakhs in the case of banks with deposits of Rs.1,000 crores and above and Rs.2 lakhs for other banks as on the 31st December 1984. The above cut-off points are valid only for the maiden classification to be done with reference to the position as on 31st December 1985. Thereafter, the classification should be done on the basis of lower cut-off point of Rs.1 lakh. The system would also cover the advances of branches outside India. Information under the system is to be up-dated on a half-yearly basis.

BANKING TRENDS

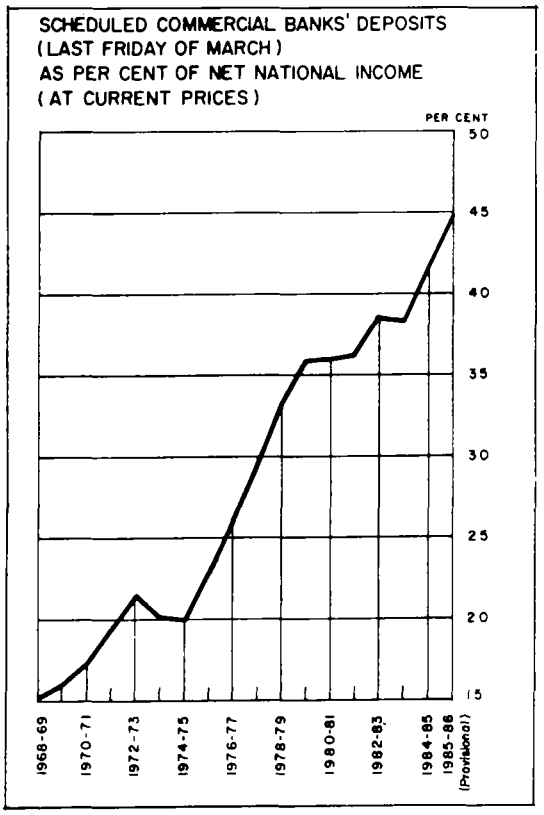
Trends in banking variables during the financial year 1985-86 are analysed both on a point-to-point and on an average basis. During the year under review, though the accretion to aggregate deposits of scheduled commercial banks attained a new peak on a point-to-point basis in absolute terms, the growth rate in deposits was lower. Bank credit and banks' investment portfolio, however, recorded lower increases, both in absolute and percentage terms.

The picture which emerges on an average basis is slightly different. While aggregate deposits registered an increase both in absolute and percentage terms, bank credit recorded a lower order of growth in both absolute and percentage terms. Investments of banks recorded a larger increase in absolute terms while its growth rate decelerated.

Banking trends (on a point-to-point basis)
Deposit growth

Accretion to aggregate deposits during 1985-86 reached an all-time high of Rs.13,044 crores surpassing last year's increase of Rs.11,648 crores which in itself was a record. However, in percentage terms the growth rate at 18.1 per cent was lower than that of 19.2 per cent in 1984-85. This decline in the growth rate of deposits during 1985-86 should be viewed in the context of a modest increase in national income and a decline in the rate of inflation. There may perhaps be diversion of savings of household sector from bank deposits (household sector is

the largest holder of bank deposits) to alternative non-bank savings media, particularly small savings.



Though in absolute terms, deposit accretion during each quarter of the current year exceeded that during the corresponding quarter of the previous year, the rate of growth, however, was higher in all but the third quarter. Deposit growth was more or less evenly distributed during the first half (April-September) and the second half (October-March) of 1985-86. An analysis of deposit growth, quarterwise, reveals that there was a sharp spurt in deposits by Rs.4,831 crores (6.7 per cent) in the first quarter of 1985-86 (April-June) as compared with Rs.4,024 crores (6.6 per cent) in the corresponding quarter of 1984-85. Deposit growth during the second quarter (July-September) at Rs.1,577 crores (2.0 per cent) was larger, both in absolute and percentage terms, than that of Rs.1,240 crores (1.9 per cent) during the corresponding quarter a year ago. During both 1984-85 and 1985-86, the third quarter (October-December) witnessed the largest growth in deposits amounting to Rs.5,851 crores (8.9 per cent) and Rs.6,003 crores (7.6 per cent) respectively, whereas during the last quarter (January-March) the accretion was the lowest among the four quarters. Comparative data for 1984-85 and 1985-86 on quarterly growth in demand and time deposits as also in aggregate deposits are given in Table VII-2.

The component-wise analysis of aggregate deposits shows that time deposits continued to account for a major share of total deposit growth registering an impressive increase of Rs.11,546 crores during 1985-86 as compared with Rs.8,829 crores in 1984-85. Demand deposits on the other hand, increased by Rs.1,498 crores only as compared with an increase of Rs.2,819 crores in 1984-85. The seasonal variations in deposits and other banking indicators are given in Table VII-3.

Reflecting the larger accretion to deposits during the year, the incremental ratio of currency to aggregate deposits declined further from the previous year's level.

Expansion in bank credit

The expansion in bank credit of Rs.6,963 crores or 14.2 per cent during the year was comparatively lower, both in absolute and percentage terms, than that of Rs.7,659 crores or 18.5 per cent in 1984-85. Food credit declined by Rs.71 crores during 1985-86 in sharp contrast to a sizeable increase of Rs.1,643 crores during the previous year. Non-food credit reached an all-time high of Rs.7,034 crores, in absolute terms, compared with that of Rs.6,016 crores during the preceding year; in percentage terms, however, the growth rate at 16.2 per cent was only marginally higher than that in the previous year.

An analysis of seasonal variations in bank credit reveals that during both the slack season of 1985 and busy season of 1985-86,the increase in non-food credit in absolute terms was more than that in food credit compared with the cor-

Table VII-2: Quarterly variation in deposits

(Rs. crores)

Quarter	Demand Deposits		Time Deposits		Total Deposits	
	1984-85	1985-86	1984-85	1985-86	1984-85	1985-86
April-June	883	908	3,141	3,923	4,024	4,831
					(+6.6)	(+6.7)
July-September	−493	−766	1,733	2,343	1,240	1,577
					(+1.9)	(+2.0)
October-December	2,001	1,530	3,850	4,473	5,851	6,003
					(+8.9)	(+7.6)
January-March	428	−174	105	807	533	633
					(+0.7)	(+0.7)
Total	**2,819**	**1,498**	**8,829**	**11,546**	**11,648**	**13,044**
					(+19.2)	(+18.1)
	1985-86	1986-87	1985-86	1986-87	1985-86	1986-87
April-June	908	1,212	3,923	4,954	4,831	6,166
					(+6.7)	(+7.2)

Notes: 1) Figures in brackets indicate percentage growth rates.
2) Data from September 1985 onwards are partially revised.

responding period of the previous year. Though the increase in non-food credit of Rs.2,498 crores during the slack season of 1985 was only marginally higher than that during the slack season of the previous year, the increase of Rs.4,569 crores during the 1985-86 busy season was substantially larger than that of Rs.3,316 crores during the 1984-85 busy season. The deceleration in the rate of growth of bank credit during the year may be attributed to the tapering off of food credit expansion after attaining a record increase of Rs.1,643 crores during 1984-85. The credit-deposit ratio at 65.6 per cent on March 28, 1986 was lower by 2.2 per cent as compared with that a year ago. The incremental non-food credit-deposit ratio during 1985-86 at 53.9 per cent was higher than that of 51.6 per cent a year ago.

Variations in other assets and liabilities

During the year 1985-86, scheduled commercial banks' investments registered a smaller increase of Rs.2,398 crores or 8.5 per cent which was about one third of the increase of Rs.6,892 crores or 32.4 per cent in the previous year. Viewed in the context of hike in statutory liquidity ratio from 36 to 37 per cent in two stages in 1985, this increase in banks' investments by a lower magnitude may be attributed to the switch from investments to cash as is evidenced by the spurt in their cash in hand and balances with the Reserve Bank by Rs.4,238 crores in contrast to a decline of Rs.783 crores a year ago. Substantial increase in deposits coupled with smaller increase in investments resulted in the investment-deposit ratio decreasing from 38.9 per cent at the end of March 1985 to 35.8 per cent by end-March 1986.

Scheduled commercial banks' cash in hand and balances with the Reserve Bank recorded a sharp increase of Rs.4,238 crores during the year in contrast to a decline of Rs.783 crores in 1984-85. The cash-deposit ratio at the end of March 1986 stood at 14.3 per cent as compared with 11.0 per cent a year ago. Banks reduced their indebtedness to the RBI by as much as Rs.604 crores compared with the increase in their borrowings by Rs.222 crores in the previous year.

Trends during the quarter April-June 1986

The first quarter of 1986-87 witnessed deposit accretion of the order of Rs.6,166 crores as compared with Rs.4,831 crores during the

Table VII-3: Variations in scheduled commercial banks' data (Seasonal and Annual)

(Rs. crores)

Items	Seasonal Variations				Annual Variations		Quarterly Variations	
	Slack Season 1984	Busy Season 1984-85	Slack Season 1985@	Busy Season 1985-86@	(April-March) 1984-85	1985-86@	April-June 1985	April-June 1986@
	1	2	3	4	5	6	7	8
Aggregate Deposits	+5,795	+5,862	+6,600	+6,668	+11,648 (+19.2)	+13,044 (+18.1)	+4,831 (+6.7)	+6,166 (+7.2)
(a) Demand Deposits	+867	+1,733	+515	+1,106	+2,819 (+24.9)	+1,498 (+10.6)	+908 (+6.4)	+1,212 (+7.8)
(b) Time Deposits	+4,929	+4,129	+6,085	+5,562	+8,829 (+17.9)	+11,546 (+19.9)	+3,923 (+6.8)	+4,954 (+7.1)
Borrowings from the Reserve Bank	+208	−331	−64	−164	+222	−604	+305	−410
Cash in hand and balances with the Reserve Bank	+784	−1,376	+2,755	+289	−783	+4,238	+4,377	+2,238
Money at call and short notice	−7	−49	+501	+178	+4	+1,718	+468	−419
Investments in Government & other approved securities	+2,638	+4,188	+2,013	+2,524	+6,892 (+32.4)	+2,398 (+8.5)	−886 (−3.1)	+2,545 (+8.3)
(a) Government securities	+1,723	+3,674	+729	+1,474	+5,223 (+38.8)	+316 (+1.7)	−1,230 (−6.6)	+1,885 (+9.9)
(b) Other approved securities	+915	+514	+1,284	+1,050	+1,669 (+21.5)	+2,082 (+22.1)	+344 (+3.6)	+660 (+5.7)
Bank Credit	+3,228	+3,949	+2,623	+4,755	+7,659 (+18.5)	+6,963 (+14.2)	+1,968 (+4.0)	+1,109 (+2.0)
(a) Food procurement advances	+921	+633	+125	+186	+1,643	−71	+1,100	+845
(b) Other advances	+2,307	+3,316	+2,498	+4,569	+6,016 (+16.1)	+7,034 (+16.2)	+868 (+2.0)	+264 (+0.5)

@ Partially revised.

Notes: 1. Bank credit figures are inclusive of credit extended through recourse to participation certificates.
2. The seasonal variations are based on outstanding as on the last Friday of April and October and annual variations are based on the data as on the last Friday of March.
3. Figures in brackets indicate percentage change over the previous corresponding period.

Source: Returns submitted by banks under Section 42(2) of the RBI Act, 1934.

corresponding quarter of the previous year; the growth rate also being higher by 0.5 per cent. Demand deposits increased by Rs.1,212 crores as compared with Rs.908 crores in April-June 1985 and time deposits by Rs.4,954 crores as compared with Rs.3,923 crores during the corresponding period of last year. Bank credit expansion during the first quarter of 1986-87 at Rs.1,109 crores or 2.0 per cent was less than that of Rs.1,968 crores or 4.0 per cent during the corresponding period of 1985-86. The magnitude of increase in both food and non-food credit was considerably smaller as compared with the corresponding quarter of 1984-85 with non-food credit increasing at a much slower pace than food credit. Food and non-food credit increased by Rs.845 crores and Rs.264 crores, respectively, as compared with the larger increases of Rs.1,100 crores and Rs.868 crores, respectively, in the corresponding quarter a year ago. Banks' investments in Government and other approved securities registered a sharp increase of Rs.2,545 crores in contrast to a decline of Rs.886 crores in the corresponding quarter of the previous year.

Banking trends (based on averages)

Data on the basis of averages of months are presented in Table VII-3A. As may be seen from the Table, some of the major banking variables depict a trend different from that seen from the analysis on a point-to-point basis. During 1985-86, aggregate deposits recorded an increase of Rs.12,669 crores (18.9 per cent) which was higher both in absolute and percentage terms than the increase of Rs.10,139 crores (17.8 per cent) a year ago. Both demand and time deposits contributed to the increase. Bank credit registered an increase of Rs.6,867 crores (15.3 per cent) which was lower than the increase of Rs.7,270 crores (19.3 per cent) in 1984-85. Both food and non-food credit contributed to the increase. However, the increase in food credit, in absolute terms, was about half of that during the previous year and in percentage terms the increase was 16.2 per cent as compared with 43.1 per cent in 1984-85. Though non-food credit recorded a larger increase of Rs.6,019 crores than that of Rs.5,697 crores in 1984-85, in percentage terms the growth was lower by 1.6 per cent. The increase in banks' investments in Government and other approved securities during 1985-86 at Rs.4,447 crores recorded a modest increase of Rs.250 crores over that a year ago; in percentage terms the growth was lower by 2.3 per cent. Cash in hand and balances of banks with the Reserve Bank were higher by Rs.2,812 crores representing more than a two fold increase over the previous year.

Table VII-3A: Variations in scheduled commercial banks' data
(Average of last Friday of months)

(Rs. crores)

Items	Outstanding			Variations	
	1983-84	1984-85	1985-86*	1984-85	1985-86
Aggregate Deposits	56,923	67,062	79,731	+10,139	+12,669
				(+17.8)	(+18.9)
Demand	10,477	12,254	14,580	+1,777	+2,326
				(+17.0)	(+19.0)
Time	46,446	54,808	65,151	+8,362	+10,343
				(+18.0)	(+18.9)
Borrowings from RBI	601	1,297	1,018	+696	−279
				(+115.8)	(−21.5)
Cash in hand & balances with RBI	6,738	8,124	10,936	+1,386	+2,812
				(+20.6)	(+34.6)
Money at call & short notice	331	423	1,274	+92	+851
				(+27.8)	(+201.2)
Investments	21,435	25,632	30,079	+4,197	+4,447
				(+19.6)	(+17.3)
Govt. securities	14,416	17,004	19,692	+2,588	+2,688
				(+18.0)	(+15.8)
Other approved securities	7,019	8,628	10,387	+1,609	+1,759
				(+22.9)	(+20.4)
Bank credit	37,693	44,963	51,830	+7,270	+6,867
				(+19.3)	(+15.3)
Food procurement advances	3,652	5,225	6,073	+1,573	+848
				(+43.1)	(+16.2)
Other advances	34,041	39,738	45,757	+5,697	+6,019
				(+16.7)	(+15.1)

* Partially revised.

Notes: 1. Data relate to the average of 12 months period i.e., last Friday of April to last Friday of March.
2. Figures in brackets indicate percentage change over the previous year.

Call Money Market

The inter-bank call money markets in Bombay and Calcutta continued to exhibit a distinctly firm trend practically throughout the year under review.

In the Bombay money market, but for the occasional easy spells between April and August 1985 and again in December 1985, stringent conditions prevailed almost throughout the year with the call money rate ruling at the ceiling level of 10 per cent. The Calcutta market, however, witnessed a firm trend with the inter-bank call money rate ruling at the ceiling level throughout the year.

Many banks were compelled to take recourse to the money market during the recent period due to the liquidity constraints imposed by hike in SLR requirement, stricter penalty provision for CRR and SLR defaults and increase in the threshold for food credit refinance. The firmness in the money market may be attributed to the mis-match between the demand and supply of funds.

SELECTIVE CREDIT CONTROL

The system of Selective Credit Controls was further streamlined during the period under review. Changes were effected without deviating from the central objective of preventing bank credit from being utilised for speculative hoarding of sensitive commodities. The basic framework of prescribed minimum rate of interest, stipulation on levels of credit, minimum margin and prohibition on grant of credit against book debts and clean credit and discounting of usance bills has also been maintained. The rationalisation measures, announced in April 1985, October 1985 and April 1986, are detailed below:

Changes introduced in April 1985

i) Levels of Credit

The base period for determining maximum permissible level of credit was uniformly brought forward to the three years period ended 1982-83 (November-October). This was done to reduce the burden on banks of monitoring credit utilisation with reference to dates which had ceased to be relevant.

ii) Minimum Margins

With a view to reducing the complex and multiple prescriptions and facilitating the efficacious operations of the controls, the multiplicity of minimum margins prescribed for each broad commodity group based on levels of stock and geographical areas was reduced in the case of foodgrains, pulses, vegetable oils and vanaspati, cotton and *kapas* and sugar, gur and *khandsari*. However, specific exemptions from minimum margin stipulations were continued. The existing structure of minimum margins applicable to oilseeds was not altered. The revised minimum margins provided some relief to certain sectors. The structure of minimum margins for commodities (other than for oilseeds) is set out in Table VII-4

iii) Exemption of Roller Flour Mills

Taking into account the regulated operations of this industry, the comfortable position of public sector stocks of wheat, the fact that minimum margin prescribed for the industry was only 25 per cent and that there was no ceiling on the level of credit, it was decided to exempt advances to roller flour mills against stocks of wheat from all the provisions of Selective Credit Controls.

iv) Increase in Overall Exemption Limit for Advances

Earlier advances upto an aggregate limit of Rs.5,000 per borrower against the stocks of commodities covered by Selective Credit Controls had been exempted from the controls. This limit was raised to Rs.25,000 provided the borrower deals with one bank only.

Advances to Sugar Industry — 1985-86 Crushing Season

Scheduled commercial banks were advised on September 20, 1985 that subject to the esti-

Table VII-4: Minimum margins on bank advances for certain commodities covered by the Selective Credit Controls (Effective April 8, 1985)

(Percentages)

Commodities	Against stocks		Against warehouse receipts
	Processing Units/Mills	Others	
1. Foodgrains (paddy, rice and other foodgrains including wheat)	45	60	45
2. Pulses	45	60	45
3. Vegetable Oils (groundnut, rapeseed/mustard, cottonseed, linseed, castor and vanaspati)	60*	75	60
4. Cotton and *kapas*	25	60	45
5. Sugar			
a) Buffer stocks	0		
b) Unreleased stocks	17.5		
c) Released stocks	75	75	60
6. Gur and *Khandasari*	45	75	60

* Applicable to registered oil mills and vanaspati manufacturers.

mates of sugar production of individual sugar mills, the bank could sanction for 1985-86 season (October-September) need-based credit limits upto 100 per cent of the maximum amount availed during the previous (1984-85) season (excluding temporary excess drawings) without obtaining Reserve Bank's prior authorisation. The actual drawings in the borrowal accounts are to be regulated on the basis of the deficit as disclosed in the monthly cash budget of mills. While suitable sub-limits could be fixed within the overall drawing limit and allowed as cash credit against stocks of sugar pledged/hypothecated, stocks of stores and consumable spares, bills purchased and discounted, etc., the banks were advised *not* to allow any other credit facilities outside the overall limit whether on clean basis or secured by assets such as spares, other raw materials, plant and machinery, etc. The sanction of additional credit limits beyond those indicated above to individual sugar mills covered by the Credit Authorisation Scheme would require the prior authorisation of the Reserve Bank.

Changes introduced in October 1985

In response to the improvement in commodity balances and relatively easy price situation, certain items were exempted from the provisions of these controls while the minimum margins were reduced in other cases. However, the existing prescriptions of minimum lending rates, stipulations on levels of credit, prohibition on grant of credit against book debts and clean credit remained unaltered.

i) Exemption of wheat from the controls

In the light of the distinct improvement in the supply position of wheat and the large public sector stocks, advances against the stocks of wheat were exempted from all the provisions of Selective Credit Controls.

ii) Exemption to Cotton Textile Mills

In the context of the comfortable supply position of raw cotton and the new textile policy, advances against raw cotton and *kapas* to mills were exempted from all the provisions of Selective Credit Controls.

iii)Increase in Overall Exemption limit for Advances

The exemption limit for advances against the stocks of commodities covered by Selective

Credit Controls was further enhanced from an aggregate limit of Rs.25,000 per borrower to Rs.50,000 provided the borrower deals with only one bank.

iv) Minimum Margins

The minimum margin against stocks of paddy/rice and cotton and *kapas* were reduced by 15 percentage points and the multiple prescriptions of margins for oilseeds were rationalised with downward adjustments. The minimum margins against stocks of vegetable oil to processing units/mills was also reduced. The new structure of minimum margins applicable with effect from October 26, 1985 is given in Table VII-5.

Table VII-5: Minimum margins for bank advances prescribed for commodities covered by the Selective Credit Controls (Effective October 26, 1985)

(Percentages)

Commodities	Against stocks		Against Warehouse Receipts
	Processing Units/Mills	Others	
1. Paddy/rice	30	45	30
2. Wheat	X	X	X
3. Other Foodgrains	45	60	45
4. Pulses	45	60	45
5. Oilseeds	45	60	45
6. Vegetable Oils	45@	75	60
7. Cotton and *Kapas*	X	45	30
8. Sugar			
a) Buffer	0	..	..
b) Unreleased stocks	17.5	..	..
c) Released	75	75	60
9. Gur and *Khandasari*	45	75	60

X Completely exempt from all the stipulations of selective credit controls.
@ Applicable to registered oil mills and vanaspati manufacturers.

Changes introduced in April 1986

With a view to carry forward the scheme of rationalisation of Selective Credit Controls effected in April and October 1985 and in the light of emerging commodity balance and developments in prices, the following modifications were made in Selective Credit Controls with effect from April 4, 1986.

i) Level of Credit

The base year for determining the maximum permissible level of credit against the stock of specified commodities was brought forward to the 3 years ended 1983-84.

ii) Exemption for Advances against Paddy/Rice

In the light of the improvement in the supply position of rice and adequate public sector stocks, all advances against stocks of paddy/rice were exempted from all provisions of Selective Credit Controls.

iii) Exemption for advances against Cotton and Kapas

In the context of the comfortable supply situation and low prices of cotton and *kapas*, advances against cotton and *kapas*, were exempted from all provisions of Selective Credit Controls.

iv) Exemption for Advances against Cottonseed and Cottonseed Oil

With substantial increase in production of cotton and a concomitant rise in the output of cottonseed, advances against stocks of cottonseed and cottonseed oil were also exempted from all provisions of Selective Credit Controls.

v) Exemption for Advances against High-Yielding and Hybrid Oilseeds

Advances against high-yielding and hybrid seeds used for growing oilseeds and certified by appropriate authorities were exempted from all the provisions of Selective Credit Controls as in the case of high-yielding and hybrid seeds used for growing foodgrains.

vi) Minimum Margins for Oilseeds and Vegetable Oils

The minimum margins on oilseeds and vegetable oils were reduced across the-board by 15 percentage points. The new structure of minimum margins is set out in Table VII-6.

Table VII—6: Minimum margins on bank advances prescribed for commodities covered by the Selective Credit Controls (Effective April 4, 1986)

(Percentages)

Commodities	Against Stocks		Against Warehouse Receipts
	Processing Units/Mills	Others	
1. Paddy & Rice	X	X	X
2. Other Foodgrains	45	60	45
3. Pulses	45	60	45
4. a) Oilseeds (other than cottonseed)	30	45	30
b) Cottonseed	X	X	X
5. a) Vegetable Oils (other than cottonseed oil)	30@	60	45
b) Cottonseed Oil	X	X	X
6. Cotton and *Kapas*	X	X	X
7. Sugar;			
a) Buffer	0	—	—
b) Unreleased stocks	17.5	—	—
c) Released	75	75	60
8. Gur and *Khandsari*	45	75	60

X Completely exempt from controls.
@ Applicable to registered oil mills and vanaspati manufacturers.

vii) Increase in Overall Exemption Limit for Advances

With a view to helping small producers and dealers, aggregate limit of advances per borrower exempted from all provisions of Selective Credit Controls was raised from Rs.50,000 to Rs.1,00,00 subject to the condition that the borrower deals with only one bank.

The provisions of the directives on Selective Credit Control in force as on April 4, 1986 are given in Annexure.

Advances against sensitive commodities*

Scheduled commercial banks' outstanding advances against sensitive commodities amounted to Rs.1,642 crores at the end of March 1986 showing an increase of Rs.432 crores during 1985-86 (April-March) as against a decline of Rs.35 crores during 1984-85 (Table

The commodities covered under Basic Statistical Return-3 are considered as sensitive commodities for this review and important among them are indicated in Table VII-7.

VII-7). At this level, advances against sensitive commodities formed 2.9 per cent of total scheduled commercial banks' credit as against 2.5 per cent a year ago. The turn around in advances against sensitive commodities noted above was mainly on account of increase in advances against cotton and *kapas*, sugar (including *Khandsari*), raw jute, paddy and rice, wheat, vanaspati, other foodgrains and oilseeds.

Table VII-7: Scheduled commercial banks' outstanding advances against selected commodities

(Rupees crores)

Commodities	AS ON THE LAST FRIDAY OF					
	March 1984		March 1985		March 1986*	
	Amount	Percentage to total	Amount	Percentage to total	Amount	Percentage to total
	1	2	3	4	5	6
1. Foodgrains (excluding food procurement advances)	**216.6**	**17.4**	**214.1**	**17.7**	**266.0**	**16.2**
a) Paddy and Rice	136.6	11.0	128.8	10.6	166.7	10.1
b) Wheat	25.7	2.1	29.2	2.4	39.5	2.4
c) Other Foodgrains	54.3	4.4	56.1	4.6	59.8	3.6
2. Sugar (including *Khandsari*)	**513.1**	**41.2**	**366.5**	**30.3**	**435.4**	**26.5**
3. Oilseeds	**17.3**	**1.4**	**17.0**	**1.4**	**20.0**	**1.2**
a) Groundnut	10.8	0.9	7.7	0.6	7.3	0.4
b) Rapeseed/Mustard	5.3	0.4	8.2	0.7	10.6	0.6
c) Linseed	0.4	—	0.4	—	0.8	0.1
d) Castorseed	0.8	0.1	0.7	0.1	1.3	0.1
4. Vegetable Oils	**34.4**	**2.8**	**38.1**	**3.1**	**38.0**	**2.3**
a) Groundnut Oil	8.1	0.7	11.4	0.9	10.5	0.6
b) Rapeseed/Mustard Oil	12.7	1.0	12.1	1.0	13.1	0.8
c) Linseed Oil	1.0	0.1	1.9	0.2	1.1	0.1
d) Castor Oil	12.6	1.0	12.7	1.0	13.3	0.8
5. Vanaspati	**23.7**	**1.9**	**36.5**	**3.0**	**43.0**	**2.6**
6. Cotton and *Kapas*‡	361.8	29.1	390.0	32.2	575.2	35.0
a) Indigenous	354.9	28.5	383.2	31.7	565.1	34.4
b) Imported	6.9	0.6	6.8	0.6	10.1	0.6
7. Raw Jute†	**78.3**	**6.3**	**148.0**	**12.2**	**264.8**	**16.1**
8. Total	**1245.2**	**100.0**	**1210.2**	**100.0**	**1642.4**	**100.0**

* Data are provisional.
‡ Inclusive of advances to Cotton Corporation of India.
† Inclusive of advances to Jute Corporation of India.
Source: Estimates are based on returns received from head office of banks.

Of the outstanding amount of Rs.1,642 crores, advances against cotton and *kapas* accounted for 35 per cent, sugar including *khandsari* for 27 per cent, raw jute and foodgrains for around 16 per cent each, vanaspati 3 per cent and vegetable oil for 2 per cent.

The major borrowers against the security of selected commodities were mills/factories and industrial users; these two categories accounted for 88.5 per cent of total advances at the end of March 1986 as compared with 86.8 per cent at the end of March 1985 (Table VII-8). Com-

modity-wise, these two categories of borrowers accounted for 98 per cent of advances against sugar (including *khandsari*), 97 per cent against vanaspati, 92 per cent against raw jute and 91 per cent against linseed oil.

Table VII-8: Security-wise advances to mills/factories and industrial users

(As percentage to total credit against respective commodities)

Sr. No.	Commodities	LAST FRIDAY OF March 1986*	March 1985
1.	Sugar (including *khandasari*)	98.3	98.3
2.	Vanaspati	97.4	98.3
3.	Raw Jute	91.9	88.6
4.	Linseed Oil	90.9	42.1
5.	Wheat	89.6	81.8
6.	Paddy and Rice	89.1	90.9
7.	Rapeseed/Mustard Oil	87.8	81.0
8.	Linseed	87.5	25.0
9.	Castor Oil	87.2	85.0
10.	Other foodgrains	81.8	62.2
11.	Cotton and *Kapas*	78.2	76.9
12.	Groundnut	75.3	64.9
13.	Rapeseed/Mustard	74.5	65.9
14.	Groundnut Oil	74.3	71.9
15.	Castorseed	69.2	85.7
	All selected commodities	**88.5**	**86.8**

* Provisional.
Source: Basic Stastitical Return-3.

WORKING OF VARIOUS SCHEMES

A brief review of various schemes in respect of which banks have been directed to pay special attention is given in this Section.

(a) Credit Authorisation Scheme

Changes in Credit Authorisation Scheme (CAS) — cut-off point for credit limits raised

Credit Authorisation Scheme has been playing a significant role as an effective instrument of credit regulation since its introduction in 1965. After a detailed review of the scheme a few changes as indicated below were effected in April 1986.

The cut-off point for prior authorisation of working capital limits in respect of non-exporters was raised to Rs.6 crores from the existing limit of Rs.4 crores. The cut-off point for both manufacturer and trader exporters was raised uniformly to Rs.7 crores from the earlier limits of Rs.5 crores and Rs.4 crores; respectively. The discretionary powers of banks were enlarged to enable them to sanction additional limits, temporarily for periods not exceeding 3 months, upto 10 per cent of the existing working capital limits and/or 25 per cent of the packing credit limits subject to an overall ceiling of Rs.2 crores as against the previous ceiling of Rs.75 lakhs.

Changes in 'fast track' arrangements

With a view to enabling greater flexibility in the use of the 'fast track' without dilution of financial discipline, the following changes were introduced.

(i) Borrowers who had managed in the past with inventory and receivables levels lower than the standard norms were to qualify for the 'fast track' facility even if the estimated inventory/receivables levels for the current year and the projected levels for the following year were higher than the past levels, but within the standard norms.

(ii) Borrowers, who had adhered to standard norms in the past but found it expedient to deviate from the norms in the estimates/projections for the current/following year were made eligible for the 'fast track' provided the deviation was not more than 15 per cent of the standard norms and that the levels would be brought down to conform to the norms within a period of one year.

(iii) The requirement of timely submission of the quarterly operating statement for the past two quarters has been modified to cover

the performance during the previous four quarters and even if a borrower had delayed the submission of the returns in one of the previous two quarters the borrower would still qualify for the 'fast track'.

Ad-hoc limit for payment of bonus

In July 1985, banks were exhorted to desist from the practice of financing outflows in the form of bonus or other statutory liabilities as such normal items of expenditure for a manufacturing concern were to be met from the regular working capital limits or out of their own resources. Banks were asked to consider granting of additional accommodation to meet bonus liabilities only in the case of units facing liquidity crisis. It was emphasised that in respect of parties under the CAS, the relative proposals should be supported by the requisite data. In all cases where an earlier bonus loan remained outstanding, the proposals for fresh loans would not be entertained unless the banks offered a satisfactory explanation therefor.

Sanction of term loans

Banks were advised that sanction of term loan/deferred payment guarantees/bridge finance by them in participation with Exim Bank and Industrial Reconstruction Bank of India would be treated on par with such facilities allowed in participation with Industrial Development Bank of India and certain other term lending institutions and such sanctions would not require authorisation from RBI if the share of banks did not exceed Rs.25 crores.

In July 1985, the guidelines relating to the share of banks in industrial term loans to be granted in participation with term lending institutions were revised, according to which banks may finance projects costing upto Rs.3 crores in participation with State-level institutions such as SFCs/SIDCs, subject to the guidelines of IDBI in respect of debt-equity ratio and financing pattern. No financial assistance is to be provided by banks for projects costing within the range of Rs.3 crores to Rs.7.5 crores, except in the case of existing clients under special circumstances. However, in respect of projects with cost exceeding Rs.7.5 crores, banks are allowed to participate at their discretion, to the extent of 25 per cent to 30 per cent of the term loan requirements including deferred payment guarantees. In the case of financing of projects by way of only deferred payment guarantee/other guarantees/ acceptances, banks are permitted to extend such facilities where the participation of the all-India financial institutions is available to the extent of 70 per cent to 75 per cent.

Working of Credit Authorisation Scheme

During the year under review, the number of parties covered under the Credit Authorisation Scheme increased from 803 at the end of March 1985 to 843 at the end of March 1986. Total limits in force (including term finance and sale of machinery on deferred payment basis) increased from Rs.19,844 crores to Rs.21,671 crores during this period (Table VII-9). Working capital limits continued to claim a predominant share of the total limits in force (93.3 per cent) with term finance and sale of machinery on deferred payment basis accounting for 5.5 per cent and 1.2 per cent, respectively.

Occupation-wise distribution of total limits in force as on March 31, 1986 showed that the share of industry was the largest at 54.4 per cent. About one half of it was accounted for by engineering, chemicals and chemical products and cotton textiles followed by trade at 43.3 per cent (Table VII-10). The share of industry in the total working capital limits of public sector units was only 34.6 per cent while that of trade was predominant at 63.4 per cent, accounted for mostly by public sector food procurement (46.4 per cent).

Applications received for authorisation by Reserve Bank increased from 653 in 1984-85 (April-March) to 730 in 1985-86. This included 178 applications from public sector units as against 130 last year. Applications approved during the year 1985-86 numbered 322 including 98 from public sector units. The amount for which authorisations were granted aggregated

Table VII-9: Distribution of credit limits by type of credit

(Rs.crores)

Type of Credit	As on March 31					
	1984		1985		1986	
	Total	Of which public sector units	Total	Of which public sector units	Total	Of which public sector units
	1	2	3	4	5	6
Working capital*	15.887	10.040	18.502	12.079	20.211	13.133
	(92.1)	(94.6)	(93.2)	(96.2)	(93.3)	(96.2)
Of which						
(a) Bills purchased and discounted	1.017	273	1.049	289	1.095	324
	(5.9)	(2.6)	(5.3)	(2.3)	(5.1)	(2.4)
(b) Export finance	768	133	763	125	868	135
	(4.5)	(1.3)	(3.8)	(1.0)	(4.0)	(1.0)
Sales of machinery on deferred payment basis	245	56	251	57	270	58
	(1.4)	(0.5)	(1.3)	(0.5)	(1.2)	(0.4)
Term finance	1.119	524	1.091	422	1.190	458
	(6.5)	(4.9)	(5.5)	(3.4)	(5.5)	(3.4)
Total limits in force	**17.251**	**10.620**	**19.844**	**12.558**	**21.671**	**13.649**
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Number of parties	751	179	803	188	843	202

* Includes cash credits and overdrafts, bills purchased and discounted and export finance.

Note: Figures in brackets indicate percentage to total limits in force.

Source: Industrial and Export Credit Department, RBI.

Rs.4,455 crores including Rs.3,877 crores for public sector units (Table VII-11).

(b) Differential Rate of Interest Scheme

Public sector banks made further progress in financing under the Differential Rate of Interest Scheme. During the year ended December 1984, the number of loan accounts under the Scheme rose by 5.26 lakhs to 42.72 lakhs and amount of loans outstanding by Rs.71.99 crores to Rs.441.38 crores. The average amount of loan also increased from Rs.986 to Rs.1,033. Provisional data for end-December 1985 indicates that the amount of loan outstanding increased further to Rs.486.08 crores and the number of accounts also went up to 45.51 lakhs. The average loan amount per account increased to Rs.1,068 during the year. The improvement in coverage of SC/ST borrowers under the Scheme is evident from increase in the number of borrowal accounts of these categories from 21.28 lakhs at the end of December 1984 to 22.60 lakhs at the end of December 1985 and in the amount outstanding from Rs.225 crores to Rs.249 crores. The share of advances granted to SC/ST borrowers in total DRI advances at 51.2 per cent at the end of December 1985 was substantially higher than the prescribed target of 40 per cent.

According to the latest data available the advances of public sector banks under the DRI scheme outstanding as on the last Friday of March 1986 was Rs.505.53 crores covering

Table VII-10: Occupation-wise distribution of total working capital limits in force
(As on March 31, 1986)

(Rs. crores)

Industry	Total limits in force		Of which public sector	
	Amount	Percentage to total	Amount	Percentage to total
	1	2	3	4
I. AGRICULTURE AND ALLIED ACTIVITIES	**147.12**	**0.7**	**27.42**	**0.2**
1. Agriculture	**28.30**	**0.1**	**21.10**	**0.1**
(i) Direct finance	12.15	0.1	12.15	0.1
(ii) Indirect finance	16.15	0.1	8.95	0.1
(a) Distribution of fertilisers	16.15	0.1	8.95	0.1
(b) Others	—	—	—	—
2. Plantations	**118.82**	**0.6**	**6.32**	**0.1**
(i) Tea	118.82	0.6	6.32	0.1
(ii) Others	—	—	—	—
II. INDUSTRY	**10,987.91**	**54.4**	**4,553.87**	**34.6**
A. Mining and Quarrying	**253.80**	**1.3**	**216.64**	**1.6**
(i) Coal mining	172.89	0.9	164.89	1.2
(ii) Iron ore	40.93	0.2	12.75	0.1
(iii) Others	39.98	0.2	39.00	0.3
B. Manufacturing	**10,355.41**	**51.2**	**4,035.39**	**30.6**
(i) Sugar	690.47	3.4	140.25	1.1
(ii) Edible oils and vanaspati	141.50	0.7	27.98	0.2
(iii) Food manufacturing and processing	17.35	0.1	—	—
(iv) Tobacco processing and tobacco product manufacturing	123.48	0.6	4.50	—
(v) Cotton textiles	1,258.56	6.2	261.41	1.9
(vi) Jute textiles	153.25	0.8	9.50	0.1
(vii) Silk and synthetic fibres	395.25	1.9	16.35	0.1
(viii) Wool and woollen textiles	123.13	0.6	59.98	0.5
(ix) Other textiles	11.41	0.1	—	—
(x) Paper and paper products	169.56	0.8	39.24	0.4
(xi) Leather and leather products	42.50	0.2	—	—
(xii) Rubber and rubber products	188.49	1.0	—	—
(xiii) Manufacturing of chemicals and chemical products	1,719.51	8.5	813.86	6.2
(a) Heavy industrial chemicals	229.46	1.2	71.32	0.6
(b) Fertilisers (production)	916.46	4.5	695.94	5.3
(c) Drugs and pharmaceuticals	222.96	1.1	28.60	0.2
(d) Plastics and plastic products	32.78	0.2	—	—
(e) Others	317.85	1.5	18.00	0.2
(xiv) Petroleum	674.70	3.3	674.70	5.1
(xv) Cement	161.61	0.9	13.05	0.1
(xvi) Basic metals and metal products	964.65	4.8	640.82	4.8
(a) Iron and steel	828.81	4.1	610.82	4.6
(b) Others	135.84	0.7	30.00	0.2
(xvii) Engineering (except transport equipment)	2,581.24	12.7	1,080.96	8.2
(a) Heavy engineering	1,668.71	8.2	982.42	7.4
(i) Machinery except electrical machinery	902.93	4.4	387.82	2.9
(ii) Electrical machinery	765.78	3.8	594.60	4.5
(b) Light engineering (including metal products)	912.53	4.5	98.54	0.8
(xviii) Manufacture of transport equipment	713.09	3.5	216.64	1.7
(i) Railway equipment industry	58.59	0.3	49.83	0.4
(ii) Others	654.50	3.2	166.81	1.3
(xix) Manufacturing — others	225.66	1.1	36.15	0.2

(Contd.)

Table VII-10: Occupation-wise distribution of total working capital limits in force *(Concld.)*
(As on March 31, 1986)

(Rs. crores)

Industry	Total limits in force		Of which public sector	
	Amount	Percentage to total	Amount	Percentage to total
	1	2	3	4
C. Electricity generation and distribution	**337.99**	**1.6**	**282.84**	**2.2**
D. Construction companies	**40.71**	**0.2**	**19.00**	**0.2**
III. TRADE	**8,757.34**	**43.3**	**8,330.02**	**63.4**
(i) Foodgrains	6,099.23	30.1	6,099.23	46.4
(ii) Fertilisers	712.65	3.5	684.65	5.2
(iii) Mineral oils	—	—	—	—
(iv) Raw cotton	605.58	3.0	597.17	4.6
(v) Raw jute	79.20	0.4	75.00	0.6
(vi) Others	1,260.68	6.3	873.97	6.6
IV. TRANSPORT/PUBLIC UTILITIES AND FINANCE	**154.37**	**0.8**	**100.51**	**0.8**
(i) Transport and communications	81.92	0.4	63.56	0.5
(ii) Financial and development institutions	64.47	0.3	28.97	0.2
(iii) Hotels, restaurants and tourism	—	—	—	—
(iv) Municipalities and administrative bodies	7.98	0.1	7.98	0.1
V. ALL OTHERS	**164.17**	**0.8**	**121.66**	**1.0**
TOTAL	**20,210.91**	**100.0**	**13,133.48**	**100.0**

Note: Working capital includes cash credit/overdrafts, bills purchased and discounted and export finance.
Source: Industrial and Export Credit Department, RBI.

Table VII-11: Particulars of applications received, approved, rejected and authorisations etc. granted under Credit Authorisation Scheme (April-March)

Particulars	1983-84		1984-85		1985-86	
	Total	Of which public sector	Total	Of which public sector	Total	Of which public sector
	1	2	3	4	5	6
Applications received@	872	192	653	130	730	178
Applications approved	391	101	391	94	322	98
Applications rejected	33	4	20	4	23	4
Reporting cases	363	92	337	74	304	78
Authorisation granted by RBI (Rs. crores)	3845	3228	3977	3486	4455	3877
Amount involved in applications rejected (Rs. crores)	93	34	92	39	111	25
Limits reported by banks (Rs. crores)*	−1569	−1623	−1362	−1449	−2747	−2822

@ Excluding applications received for extension of period, authorisations for letters of credit or deferred payment guarantees, restorations, conversion of limits, etc.

* Represent changes in limits made by banks.

Note: Figures in respect of applications received exclude applications received in Industrial Rehabilitation Division.
Source: Industrial and Export Credit Department, RBI.

45.70 lakh accounts. Of this Rs.257.12 crores in 22.87 lakh accounts was accounted for by beneficiaries belonging to SC/ST and formed 50.9 per cent of total DRI advances.

The percentage of DRI advances of public sector banks to their total advances as at the end of the previous year at 1.22 per cent and 1.15 per cent at the end of December 1984 and December 1985, respectively, exceeded the national target of 1 per cent (Table VII-12).

Table VII-12: Progress of lending under the DRI Scheme (Public Sector banks)

As at the end of December	No. of borrowal Accounts (000s)	Amount outstanding (Rs. crores)	Percentage of DRI advances to total advances at the end of the previous year
1972	26	0.87	0.02
1975	465	20.99	0.31
1980	2510	193.56	1.04
1983	3746	369.39	1.18
1984	4272	441.38	1.22
1985 (Provisional)	4551	486.08	1.15

Source: Rural Planning and Credit Department, RBI.

(c) Self-Employment Scheme for Educated Unemployed Youth

The self-employment scheme for educated unemployed youth introduced in September 1983 aimed at encouraging educated unemployed youth to undertake productive self-employment ventures. The target of beneficiaries to be assisted during 1985-86 continued at 2.50 lakhs, same as in the case of previous two years. As against this target, banks had sanctioned loans to 2.18 lakh beneficiaries amounting to Rs.414.95 crores during 1985-86 (data provisional).

In August 1985, the Reserve Bank instructed the scheduled commercial banks to consider credit proposals recommended by DICs, DRDAs and KVIC so that young men and women trained by the vocational guidance units could take up self-employment ventures in agriculture, horticulture, animal husbandry, fisheries and forestry, small and village industries including agro-processing.

(d) Lead Bank Scheme — Annual Action Plan, 1986

During 1985, lead banks prepared and implemented Annual Action Plans (AAPs) 1985 according to revised guidelines issued by the RBI as the Plan priorities requiring credit support from banks under the Seventh Plan were not available for preparation of the fourth round of District Credit Plans (DCPs). Pending finalisation of the guidelines for the fourth round of DCPs, lead banks were advised by the Reserve Bank in September 1985 to prepare Annual Action Plans for 1986 broadly on the basis of the guidelines issued earlier for the preparation of AAP 1985 subject to a few changes. AAPs for 1986 have been prepared and launched in all the districts of the country except 3 districts of Nagaland.

Lead banks for newly constituted districts

During the year, two new districts, one each in Assam and Tamil Nadu were carved out from the existing districts, lead responsibility

for which was entrusted to banks as shown below:

State	Name of the old district from which the new district was formed	Name of the new district	Lead bank for the new district
Assam	Kamrup	Nalbari	UCO Bank
Tamil Nadu	Madurai	Anna	Canara Bank

Besides, it was decided to assign the lead responsibility of the newly created district of North 24 Parganas in West Bengal to Allahabad Bank.

(e) Integrated Rural Development Programme (IRDP)

Banks continued their efforts in increasing the flow of assistance under the IRDP launched in 1978-79 to help households in the identified target groups to raise their incomes above the poverty line and to create substantial opportunities for employment in rural areas. During 1985-86, the first year of the Seventh Five Year Plan, assistance under the above Programme was provided in accordance with the new guidelines issued by the Government of India. The income cut-off point in respect of poverty line which was fixed earlier at Rs.3,500 has been raised to Rs.6,400. However, for identification of families, a lower cut-off point has been fixed at annual income level of Rs.4,800. Further, in view of the inter-State variation and disparities in the incidence of poverty, the Government of India have decided that the allocation of funds under IRDP during the Seventh Plan period would be in relation to incidence of poverty in each State. The Government has also stipulated a target of 30 per cent for coverage of women beneficiaries under the Programme.

The progress made by banks in extending credit under the Programme is indicated in Table VII-13. During the financial year 1985-86, 28.23 lakh beneficiaries were assisted and term loans aggregating Rs.606.27 crores were granted by banks (including RRBs and co-op. banks) as against 38.40 lakh beneficiaries and term loans of Rs.836.28 crores during the previous year. During the Sixth Plan period, financial assistance to 16.56 million families by way of term loans of Rs.3,102 crores had been provided as against the target of covering 15 million families.

Table VII-13: Progress in assistance provided by banks under IRDP

	April-March		
	1983-84	1984-85	1985-86@
Subsidy allocated (Rs. crores)	407.36	407.36	407.36
Subsidy utilised (Rs. crores)	406.09	461.30	366.75
Term loan disbursed (Rs. crores)	773.51	836.28	606.27
Number of SC/ST families assisted	1536743	1683463	1193418
Total number of families assisted	3685334	3840320	2822993

@ Provisional.

Source: Ministry of Rural Development, Government of India.

Evaluation reports on implementation of IRDP by various agencies indicated that around 60 per cent of the assisted families could not cross the poverty line. A scheme for providing supplementary assistance to certain eligible categories of borrowers assisted during Sixth Plan period,has been initiated in 1985-86. The scheme envisages help to those borrowers who are not defaulters and have maintained assets in good condition or have lost them due to reasons beyond their control. The Government has estimated physical targets for supplementary assistance during the Seventh Plan at 10 million families who are to be covered in the first three years. The target in respect of new beneficiaries has also been placed at 10 million families. The Central Sector outlay for the Programme is Rs.1,186.79 crores.

Banks were advised to arrange crash training programmes for the officers of rural branches at the district level in order to enlighten them on the instructions/guidelines relating to bank finance for special programmes like IRDP.

Study Group on IRDP

In November 1985, the Reserve Bank of India set up a Study Group with the objective of streamlining the arrangements for flow of credit and supply of inputs and assets to the IRDP beneficiaries to enable them to derive the full benefits of the anti-poverty programme. Based on the recommendations of the Study Group banks have been advised to implement, on an experimental basis, a system of cash disbursement of IRDP assistance. This scheme is to be implemented in 22 selected blocks all over the country with effect from April 1, 1986. Under the scheme cash disbursement upto Rs.3,000 may be made in certain specified cases against documentary evidence for having purchased the asset/s. Banks are expected to verify by actual inspection, the purchase of assets by the beneficiaries.

(f) Export Credit

During 1985-86 (April-March) outstanding export credit of 50 scheduled commercial banks (which account for 95 per cent of gross bank credit) increased by Rs.74 crores to Rs.2,409 crores, as compared with the increase of Rs.294 crores during 1984-85. Export credit formed 4.4 per cent of non-food gross bank credit as at the end of March 1986 compared with 4.9 per cent a year ago.

Export Credit (Interest Subsidy) Scheme, 1968

During the year, the Reserve Bank disbursed interest subsidy to the tune of Rs.24.70 crores to commercial banks and eligible co-operative banks at the rate of 1.5 per cent per annum on the export credit extended by them. On behalf of the Ministry of External Affairs, the Bank also disbursed at different rates special subsidy amounting to Rs.63.21 lakhs in respect of certain special lines of credit extended to Bangladesh for its imports from India.

Duty Drawback Credit Scheme, 1976

The essential features of this Scheme were briefly covered in last year's Report. During the financial year 1985-86, 21 banks were sanctioned limits aggregating Rs.16.4 crores to enable them to avail interest-free refinance admissible under the Scheme. As on January 31, 1986, refinance to the extent of Rs.3.96 crores was availed by banks and the outstanding as on that date was Rs.3.14 crores.

QUALITATIVE CHANGES IN BANK CREDIT DISTRIBUTION

Sectoral Deployment of Credit

The direction and flow of credit in respect of 50 scheduled commercial banks which account for about 95 per cent of gross bank credit are given in Table VII-14. During the financial year 1985-86, gross bank credit of these banks increased by Rs.7,255 crores to Rs.55,211 crores. The share of priority sector advances in gross bank credit increased to 39.0 per cent during 1985-86 from 38.4 per cent in 1984-85. The share of priority sector advances in net bank credit at 40.9 per cent by end-March 1986 exceeded the national target of 40 per cent fixed for March 1985. The share of food procurement credit in gross bank credit declined by 1.7 per cent to 10.1 per cent at the end of March 1986. While the share of medium and large industries in gross bank credit increased to 34.7 per cent at the end of March 1986 from 33.2 per cent a year ago, that of wholesale trade, however, remained at the same level (5.5 per cent) as in March 1985. Of the total priority sector advances at end-March 1986, the share of agriculture was the largest. Outstanding advances to agriculture at Rs.9,071 crores formed 42.0 per cent of the total priority sector advances and 16.4 per cent of gross bank credit. Advances to small-scale industries at Rs.7,808 crores accounted for 36.2 per cent of the priority sector advances and 14.1 per cent of gross bank credit.

Of the incremental non-food gross bank credit of the 50 banks amounting to Rs.7,326 crores during 1985-86, the share of priority sector was Rs.3,175 crores or 43.3 per cent. The share of agriculture in incremental priority sector credit was 44.4 per cent and that of

Table VII-14: Sectoral deployment of gross bank credit
(As on the last Friday)

(Rs.crores)

Sector	Outstanding			Variation over the year	
	March 1984	March 1985	March 1986@	1984-85	1985-86
	1	2	3	4	5
I. Public food procurement credit	**4022**	**5665**	**5594**	**+1643**	**−71**
	(10.0)	**(11.8)**	**(10.1)**		
II. A. Priority sectors	**14899**	**18409**	**21584**	**+3510**	**+3175**
	(26.9)	**(38.4)**	**(39.0)**		
(i) Agriculture	6144	7660	9071	+1516	+1411
	(15.2)	(16.0)	(16.4)		
(ii) Small-scale industries	5447	6612	7808	+1165	+1196
	(13.5)	(13.8)	(14.1)		
(iii) Other priority sectors	3308	4137	4705	+829	+568
	(8.2)	(8.6)	(8.5)		
B. Industry (medium & large)	**14621**	**15939**	**19179**	**+1318**	**+3240**
	(36.2)	**(33.2)**	**(34.7)**		
C. Wholesale trade (other than food procurement)	**2343**	**2649**	**3048**	**+306**	**+399**
	(5.8)	**(5.5)**	**(5.5)**		
D. Other sectors	**4536**	**5294**	**5806**	**+758**	**+512**
	(11.2)	**(11.0)**	**(10.5)**		
III. Non-food gross bank credit (A+B+C+D)	**36399**	**42291**	**49617**	**+5892**	**+7326**
	(90.0)	**(88.2)**	**(89.9)**		
Export credit (included under item III)	2041	2335	2409	+294	+74
	(5.0)	(4.9)	(4.4)		
IV. Gross bank credit (I+III)	**40421**	**47956**	**55211**	**+7535**	**+7255**
	(100.0)	**(100.0)**	**(100.0)**		

@ Provisional.

Notes: 1. Data relate to 50 scheduled commercial banks which account for about 95 per cent of gross bank credit. Further, these data include bills rediscounted with the RBI, IDBI, Exim Bank and other approved financial institutions and participation certificates.

2. Figures in brackets are percentages to total gross bank credit.

Source: Credit Planning Cell, RBI.

small-scale industries 37.7 per cent; the balance of 17.9 per cent was accounted for by other priority sectors. The increase in credit to medium and large industries during 1985-86 was more than double that in the previous year; its share in incremental non-food gross bank credit was 44.2 per cent in 1985-86 as against 22.4 per cent in 1984-85. Credit to wholesale trade increased by Rs.399 crores during 1985-86 and constituted 5.4 per cent of incremental non-food credit.

Data on sectoral classification of scheduled commercial banks' advances based on Basic Statistical Returns for all reporting banks are available upto June 1983. Table VII-15, provides sector-wise details of bank credit for the period June 1980 to June 1983 with comparable data for March 1968. A marked shift in the direction of bank credit is witnessed during the period between March 1968 and June 1983. During this period total credit registered over a ten-fold increase with significant increases in advances to agriculture and allied activities and small-scale industries. During this period, while the share of agriculture and allied activities and small scale industries in total credit

increased from 2.2 per cent and 6.9 per cent to 16.5 per cent and 11.0 per cent, respectively, those of large and medium industries and wholesale trade dropped from 60.6 per cent and 17.7 per cent to 36.5 per cent and 15.4 per cent, respectively.

Table VII-15: Sectoral classification of scheduled commercial banks' advances

(Rs. crores)

SECTOR	Outstanding as on last Friday of									
	March 31, 1968		June 1980		June 1981		June 1982		June 1983	
	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total	Amount	% to total
	1	2	3	4	5	6	7	8	9	10
I. Industry	**2,068**	**67.5**	**10,236**	**48.0**	**12,222**	**49.1**	**14,014**	**47.3**	**16,635**	**47.5**
(a) Large & medium industries	1,857	60.6	7,702	36.1	9,154	36.8	10,477	35.4	12,778	36.5
(b) Small scale industries	211	6.9	2,534	11.9	3,068	12.3	3,537	11.9	3,857	11.0
II. Agriculture and allied activities	**67**	**2.2**	**3,152**	**14.8**	**4,160**	**16.7**	**5,104**	**17.2**	**5,786**	**16.5**
Of which:										
(a) Direct finance	—	—	2,418	11.3	3,033	12.2	3,831	12.9	4,260	12.2
(b) Plantations	58	1.9	292	1.4	395	1.6	419	1.4	411	1.2
III. Internal trade	**588**	**19.2**	**4,741**	**22.3**	**4,462**	**17.9**	**5,488**	**18.5**	**6,574**	**18.8**
(a) Wholesale trade	541	17.7	4,059	19.1	3,595	14.5	4,449	15.0	5,380	15.4
Of which:										
Food procurement	109	3.5	2,410	11.3	2,202	8.9	2,825	9.5	3,589	10.2
(b) Retail trade	47	1.5	682	3.2	866	3.5	1,038	3.5	1,194	3.4
IV. Services	**—**	**—**	**472**	**2.2**	**571**	**2.3**	**673**	**2.3**	**844**	**2.4**
V. Personal loans	**—**	**—**	**700**	**3.3**	**859**	**3.5**	**1,160**	**3.9**	**1,403**	**4.0**
VI. All others*	**341@**	**11.1**	**2,010**	**9.4**	**2,601**	**10.5**	**3,205**	**10.8**	**3,778**	**10.8**
VII. Total	**3,064**	**100.0**	**21,312**	**100.0**	**24,875**	**100.0**	**29,644**	**100.0**	**35,020**	**100.0**

— Not available @ Includes services and personal loans

* Includes advances to transport operators also.

Source: March 1968 data are based on Survey of Advances of Scheduled Commercial Banks According to Purpose. Data for 1980 to 1983 are based on Basic Statistical Returns.

Industry-wise Deployment of Credit

Further details of industry-wise credit deployment which relate to 50 scheduled commercial banks are given in Table VII-16. During 1985-86 (April-March), outstanding credit to industry — large, medium and small-scale — at Rs.26,987 crores recorded an increase of Rs.4,436 crores which was sizeably larger than the increase of Rs.2,483 crores in the previous year. The share of credit to industry in outstanding gross bank credit also increased from 47.0 per cent at the end of March 1985 to 48.9 per cent by the end of March 1986.

But for iron and steel, coal and SAFAUNS, credit to all the other industries registered an increase during 1985-86. The industries which accounted for a major share of the incremental credit of Rs.4,436 crores during the year were engineering (Rs.1,153 crores), residual industries (Rs.1,136 crores), chemicals, dyes, paints, drugs and pharmaceuticals (Rs.821 crores), cotton, jute and other textiles (Rs.609 crores), petroleum (Rs.301 crores), other metals and metal products (Rs.139 crores) and sugar (Rs.110 crores). In all these cases, the increases during the year were somewhat larger than in the last year. Advances to petroleum

Table VII-16: Industry-wise deployment of gross bank credit
(Public and private sectors)
(As on last Friday)

(Rs. crores)

Industry	Outstanding			Variations	
	March 1984	March 1985	March 1986@	1984-85	1985-86
	1	2	3	4	5
Coal	147	119	93	−28	−26
	(0.4)	(0.2)	(0.2)		
Iron and Steel	1,594	1,430	1,267	−164	−163
	(3.9)	(3.0)	(2.3)		
Other metals and metal products	670	801	940	+131	+139
	(1.7)	(1.7)	(1.7)		
All engineering	4,815	5,560	6,713	+745	+1,153
	(11.9)	(11.6)	(12.2)		
Electricity (Generation & Transmission)	303	415	493	+112	+78
	(0.8)	(0.9)	(0.9)		
Cotton textiles	1,644	1,869	2,195	+225	+326
	(4.1)	(3.9)	(4.0)		
Jute textiles	211	263	277	+52	+14
	(0.5)	(0.5)	(0.5)		
Other textiles	1,192	1,365	1,634	+173	+269
	(3.0)	(2.8)	(3.0)		
Sugar	599	428	538	−171	+110
	(1.5)	(0.9)	(1.0)		
Tea	247	295	321	+48	+26
	(0.6)	(0.6)	(0.6)		
Vegetable oils (including Vanaspati)	265	311	341	+46	+30
	(0.7)	(0.6)	(0.6)		
Tobacco & tobacco products	169	159	184	−10	+25
	(0.4)	(0.3)	(0.3)		
Paper & paper products	486	596	664	+110	+68
	(1.2)	(1.2)	(1.2)		
Rubber & rubber products	390	434	456	+44	+22
	(1.0)	(0.9)	(0.8)		
Chemicals, dyes, paints, drugs & pharmaceuticals	2,088	2,325	3,146	+237	+821
	(5.2)	(4.8)	(5.7)		
Of which: fertilisers	397	361	700	−36	+339
	(1.0)	(0.8)	(1.3)		
Cement	237	282	353	+45	+71
	(0.6)	(0.6)	(0.6)		
Leather & leather products	267	323	388	+56	+65
	(0.7)	(0.7)	(0.7)		
Construction	216	265	286	+49	+21
	(0.5)	(0.6)	(0.5)		
Petroleum	374	72	373	−302	+301
	(0.9)	(0.2)	(0.7)		
SAFAUNS*	368	376	326	+8	−50
	(0.9)	(0.8)	(0.6)		
Residual	3,786	4,863	5,999	+1,077	+1,136
	(9.4)	(10.1)	(10.9)		
Total credit to industry	**20,068**	**22,551**	**26,987**	**+2,483**	**+4,436**
	(49.6)	**(47.0)**	**(48.9)**		
Total gross bank credit	**40,421**	**47,956**	**55,211**	**+7,535**	**+7,255**
	(100.0)	**(100.0)**	**(100.0)**		

@ Provisional
* Ships Acquired From Abroad Under New Scheme.

Note: Figures in brackets are percentages to total gross bank credit.

Source: Credit Planning Cell, RBI.

and sugar industries increased during the year in sharp contrast to a decline in the previous year. As in the previous year, iron and steel and coal industries recorded a return flow of funds to the tune of Rs.163 crores and Rs.26 crores, respectively, during the year. Credit to SAFAUNS registered a decline of Rs.50 crores in contrast to a marginal increase in the previous year.

Table VII-17: Advances of scheduled commercial banks to major industries

(Percentage to total bank credit)

Industry	March 31, 1968	As on the last Friday of June			
		1980	1981	1982	1983
	1	2	3	4	5
Basic metals and metal products	..	5.2	5.1	6.0	7.2
Of which: Iron and steel	3.7	2.8	2.6	3.5	4.8
Beverage and tobacco	..	0.9	0.7	0.7	0.7
Cement	1.3	0.5	0.5	0.6	0.6
Chemicals and chemical products	6.0	6.1	6.4	5.9	5.5
Of which:					
Heavy industrial chemicals	..	0.8	0.8	0.9	0.8
Drugs and pharmaceuticals	..	1.1	1.0	1.0	1.0
Fertilisers	..	1.6	1.8	1.7	1.5
Coal	0.8	0.3	0.1	0.2	0.2
Edible oils and vanaspati	1.4	0.7	0.7	0.7	0.6
Engineering	15.7	9.8	9.3	9.5	8.9
Heavy engineering	8.9	4.6	4.1	4.4	4.1
Light engineering	6.8	2.5	2.4	2.3	2.2
Others	..	2.7	2.8	2.8	2.6
Leather and leather products	..	0.8	0.7	0.7	0.6
Manufacturing of basic minerals	..	1.8	3.1	0.9	1.2
Paper, paper products and printing	1.6	1.7	1.8	1.7	1.7
Rice, flour and dal mills	..	0.8	0.7	0.7	0.7
Rubber and rubber products	0.7	1.0	1.0	0.9	0.8
Sugar	5.3	0.9	1.0	1.3	1.7
Textiles	15.5	8.4	8.6	7.8	7.5
Of which:					
Cotton textiles	10.3	4.4	4.4	3.9	3.7
Jute textiles	3.1	0.5	0.7	0.7	0.5
Vehicles and vehicle parts and transport equipments	..	2.5	2.1	2.3	2.1
Other Industries	..	6.7	7.3	8.1	7.5
Total credit to industry	**67.5**	**48.0**	**49.1**	**47.3**	**47.5**
Total Bank Credit	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

.. Not available

Source: For March 31, 1968: Survey of Advances of Scheduled Commercial Banks according to Purpose and for 1980 to 1983 Basic Statistical Returns.

Data on the share of major industries in total advances of scheduled commercial banks as at the end of June 1980 to 1983 with comparable data as at the end of March 1968 are furnished in Table VII-17. Table VII-18 presents data on certain ratios relating to inventories and bank borrowings of public limited companies in the private sector. It is observed that over the years, large companies (each with the paid-up capital of Rs.1 crore and above) reported steady decline in the inventory-sales ratio. However, the proportion of short-term bank borrowings to inventories tended to increase.

Table VII-18: Ratio of inventories to sales and bank borrowings to inventories (Public limited companies in the private sector)

Year	Total inventories as percentage of of sales@	Raw materials and components as percentage of total inventories	Short-term bank borrowings as percentage of total inventories	Total bank borrowings as percentage of total inventories
*1651 Medium and Large Public Limited Companies**				
1980-81	27.5	32.1	43.6	51.0
1981-82	27.5	31.3	42.2	50.1
1982-83	27.7	29.1	41.0	50.4
535 Large Public Limited Companies£				
1981-82+	28.4	33.5	38.7	45.3
1982-83	27.7	30.1	37.5	46.7
1983-84	25.8	29.0	40.0	52.1
1984-85	24.5	29.3	40.5	52.6

@ Net of rebates, discounts, excise duty and cess.
* Each with paid-up capital of Rs.5 lakhs or above.
£ Each with paid-up capital of Rs.1 crore or above.
\+ Based on the sample of 500 companies.
Source: RBI Studies on company finances.

Advances to Priority Sectors

Data on advances of public sector banks to priority sectors outstanding on the eve of bank nationalisation (June 1969) and as at the end of December 1984 and 1985 are given in Table VII-19.

The number of priority sector borrowal accounts with public sector banks increased from 216 lakhs at the end of December 1984 to 240 lakhs by end-December 1985. Total priority sector advances of these banks went up from Rs.17,378 crores to Rs.20,544 crores during this period. As against the national target of 40 per cent set for priority sector advances by March 1985, their share in total bank credit stood at 41.2 per cent and 42.7 per cent respectively, at end-December 1984 and end-December 1985. In June 1969, priority sector advances constituted only 14.6 per cent of total bank credit.

Within the priority sector, the increase during 1985 was Rs.1,394 crores (19.0 per cent) in the case of agriculture and Rs.1,219 crores (19.8 per cent) in SSI. Nearly 77 per cent of outstanding advances of Rs.8,008 crores in

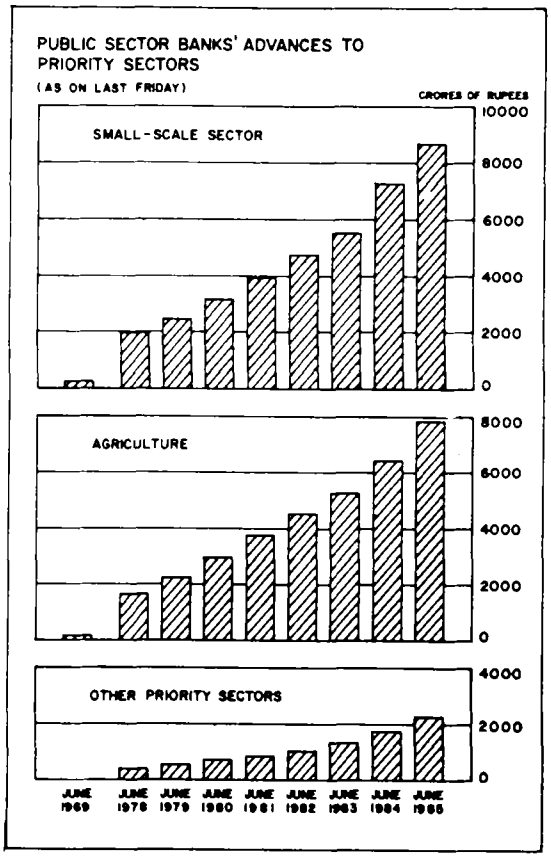


Table VII-19: Public sector banks' advances to priority sectors
(As on last Friday)

Sector	No. of Accounts (in '000s)			Amount outstanding (Rupees crores)		
	June 1969	December 1984	December 1985@	June 1969	December 1984	December 1985@
	1	2	3	4	5	6
I. Agriculture	165	14469	15931	162	7344	8738
(i) Direct finance	160	13479	14922	40	5970	7361
(ii) Indirect finance	5	990	1009	122	1374	1377
II. Small-scale sector*	53	1960	NA	257	8008	NA
(i) Road & water transport operators	2	548	NA	6	1774	NA
(ii) Small-scale industries	51	1412	1567	251	6156	7375
(iii) Setting up of industrial estates	—	—	NA	—	78	NA
III. Other priority sectors	42	4816	6537	22	1954	4431
(i) Retail trade and small business	33	3302	NA	19	1413	NA
(ii) Professional and self-employed persons	8	1449	NA	2	510	NA
(iii) Education	1	58	NA	1	25	NA
(iv) Indirect finance to other priority sectors (including SC/ST/ Corporations/Organisations)	—	7	NA	—	6	NA
IV. Housing loans to SC/ST and weaker sections+	—	162	NA	—	53	NA
V. Consumption loans+	—	202	NA	—	19	NA
Total priority sector advances	**260**	**21609**	**24035**	**441**	**17378**	**20544**
VI. Exports	—	—	—	204	—	—
Total bank credit	—	—	—	**3016**	**42165**	**48067**
Percentage of priority sector advances to total bank credit	—	—	—	14.6	41.2	42.7

* Relate to number of units.
@ Data provisional.
— Nil or negligible.
\+ Data are available from December 1981.
NA Not available

Note: Data for 1969 are from Banking Statistics, Government of India and for later years from Rural Planning and Credit Department, RBI.

respect of small-scale sector as at the end of December 1984 was accounted for by SSI units and the balance mainly by road and water transport operators. Among other priority sector advances, retail trade and small business and professional and self-employed persons were the main beneficiaries and they accounted for 72.3 per cent and 26.1 per cent, respectively, of the advances of Rs.1,954 crores as at the end of December 1984. Public sector banks stepped up their loans and advances to SC/ST beneficiaries from Rs.1,029.39 crores at the end of December 1984 to Rs.1,307.22 crores at the end of December 1985 (provisional). Loans to SC/ST and weaker sections for housing stood at Rs.53 crores and consumption loans at Rs.19 crores at the end of December 1984. According to the provisional data available for end-March 1986, total advances of public sector banks to priority sector increased to Rs.20,853 crores; total number of borrowal accounts also increased to 244 lakhs. Of this, advances to agriculture amounted to Rs.8,703 crores, small-scale industries Rs.7,561 crores

and other priority sectors Rs.4,589 crores. Assistance to the beneficiaries under the New 20-Point Programme amounted to Rs.6,869 crores (136.05 lakh accounts) at the end of December 1985 (provisional data) as compared with Rs.5,163 crores (111.63 lakh accounts) in the previous year. According to the latest data available, such advances outstanding as on the last Friday of March 1986 stood at Rs.7,107 crores involving 140 lakh accounts.

Regional and Rural/Urban Pattern of Credit Deployment

In order to reduce the regional imbalances in banking development, commercial banks were asked to achieve a credit-deposit ratio of 60 per cent in rural and semi-urban areas. Region-wise and State-wise credit-deposit ratios of scheduled commercial banks classified according to population groups presented in Table VII-20 indicate that for the country as a whole, the credit-deposit ratio for rural branches of all scheduled commercial banks including regional rural banks at 65.6 per cent exceeded the target of 60 per cent. However, the ratio in the case of semi-urban branches at 52.8 per cent fell short of the stipulated target. The performance of both rural and semi-urban branches during the year was better than that a year ago (June 1984) when the ratios stood at 62.5 per cent and 50.9 per cent, respectively. Both in rural and semi-urban areas, performance of public sector banks was better than that of private sector banks. The credit-deposit ratios in the rural and semi-urban areas in respect of public sector banks (excluding RRBs) were 61 per cent and 52.8 per cent as against 50.3 per cent and 50 per cent respectively, for the private sector banks.

Taking the banking system as a whole, banks in the southern region alone had achieved the national target of 60 per cent both in the rural and semi-urban areas. The progress of the various States in this regard was uneven. Some made impressive progress while others lagged behind. It may be seen from Table VII-20 that the credit-deposit ratio in respect of rural branches was 60 per cent or more in the case of 12 States and 3 Union territories compared with 6 States in respect of semi-urban offices.

The data on frequency distribution of districts based on credit-deposit ratios of rural and semi-urban offices as at the end of June 1985 as also in the previous two years are presented in Table VII-21. The credit-deposit ratio in respect of rural branches was 60 per cent or more in 256 districts (or 59.1 per cent) out of 433 districts as against 231 districts (or 54.0 per cent) out of 428 districts in the previous year. The average size of deposits per district in this category also went up from Rs.18 crores in the previous year to Rs.19 crores. The number of districts with credit-deposit ratio below 40 per cent came down from 93 in June 1984 to 87 in June 1985. In the case of semi-urban offices, the number of districts with credit-deposit ratio of 60 per cent and above declined from 140 at the end of June 1984 to 139 by the end of June 1985.

Deposits and Credit of Scheduled Commercial Banks: Area-wise and State-wise

The post-nationalisation era has been characterised by an impressive growth in banking facilities, especially in the rural and semi-urban centres as is evident from their performance in the sphere of deposit mobilisation and credit deployment.

The share of rural offices in total deposits and advances at the end of June 1985 was 13.6 per cent and 13.0 per cent, respectively, as against a mere 3.1 per cent and 1.5 per cent in June 1969 which indicates that both with regard to mobilisation of deposits and deployment of credit, the performance of rural offices has been remarkable. There was no appreciable increase in the share of semi-urban offices in total deposits which hovered around 22 per cent as compared with their share in total credit which increased from 11.3 per cent to 16.7 per cent during the period since June 1969. The combined share of urban and metropolitan offices both in deposit mobilisation and credit deployment declined from 74.9 per cent and

Table VII-20: State-wise credit-deposit ratios of offices of public and private sector scheduled commercial banks according to population groups (As on the last Friday of June 1985)

(Per cent)

Region/State/ Union Territory	Rural			Semi-Urban			Urban/Metropolitan			Total		
	Public*	Private	Total@	Public*	Private	Total@	Public*	Private	Total@	Public*	Private	Total@
	1	2	3	4	5	6	7	8	9	10	11	12
Northern Region	**47.3**	**33.2**	**48.9**	**52.5**	**45.8**	**52.3**	**69.8**	**68.2**	**69.6**	**63.6**	**61.9**	**63.7**
Haryana	77.4	30.9	77.7	58.4	39.3	57.8	70.4	80.0	70.6	67.5	58.3	67.6
Himachal Pradesh	42.7	20.3	43.2	46.5	17.7	45.4	—	—	—	44.0	18.4	44.0
Jammu & Kashmir	32.7	35.5	35.9	42.2	53.7	47.0	37.7	51.9	44.9	37.2	47.9	42.8
Punjab	33.9	7.6	33.1	50.2	25.9	50.0	47.5	61.4	48.0	44.7	38.4	44.6
Rajasthan	82.4	67.8	90.9	57.3	51.0	57.4	71.6	71.8	71.4	68.9	65.0	70.5
Chandigarh	60.2	—	60.2	34.7	—	34.7	286.9	65.3	282.9	277.9	65.3	274.2
Delhi	31.4	24.8	31.0	17.3	—	17.3	58.0	74.0	59.4	57.6	73.6	59.0
North-Eastern Region	**57.7**	**42.1**	**62.5**	**39.9**	**30.3**	**39.7**	**52.0**	**43.7**	**51.7**	**47.9**	**37.8**	**48.9**
Assam	64.7	40.4	67.4	43.1	32.8	42.5	60.9	48.9	59.4	53.3	41.5	53.3
Manipur	162.4	—	159.9	101.4	—	102.4	50.1	—	50.7	69.5	—	70.5
Meghalaya	53.2	—	55.2	26.1	53.5	26.8	21.5	18.4	21.3	26.2	21.3	26.5
Nagaland	37.6	—	37.7	41.7	9.9	40.1	—	—	—	40.7	9.9	39.6
Sikkim	49.7	—	49.7	8.9	—	8.9	—	—	—	14.5	—	14.5
Tripura	75.3	—	97.9	61.1	—	68.2	56.8	22.6	60.6	61.5	22.6	72.9
Arunachal Pradesh	21.6	66.7	21.7	17.9	—	17.9	—	—	—	21.5	66.7	21.5
Mizoram	24.5	—	30.7	20.6	—	20.9	—	—	—	21.3	—	22.8
Eastern Region	**46.4**	**28.2**	**57.6**	**34.5**	**38.0**	**35.1**	**54.7**	**64.9**	**55.7**	**49.4**	**63.3**	**52.0**
Bihar	44.7	—	56.0	35.1	36.6	35.1	39.8	31.3	39.5	39.2	31.7	41.7
Orissa	104.7	—	132.9	71.7	—	73.5	85.7	106.5	85.5	85.3	106.5	92.8
West Bengal	32.9	28.2	37.8	25.1	38.1	26.0	56.6	65.6	57.9	50.0	64.0	51.9
Andaman & Nicobar Islands	33.4	—	33.4	37.4	—	37.4	—	—	—	36.6	—	36.6
Central Region	**59.9**	**36.0**	**64.5**	**50.9**	**38.5**	**50.3**	**48.7**	**61.1**	**49.3**	**51.4**	**51.0**	**52.7**
Madhya Pradesh	72.8	16.3	81.9	56.1	34.3	55.4	60.4	67.6	60.4	61.0	56.8	62.6
Uttar Pradesh	56.0	36.2	59.6	48.6	38.7	48.1	44.5	60.5	45.5	47.8	50.6	49.2
Western Region	**55.8**	**67.7**	**57.1**	**52.2**	**51.3**	**52.2**	**87.1**	**93.6**	**87.7**	**78.9**	**90.5**	**79.9**
Gujarat	48.3	—	48.9	50.8	62.5	50.8	58.1	50.3	58.0	54.7	50.4	54.7
Maharashtra	77.9	67.5	78.7	59.4	49.8	58.7	94.6	94.7	94.6	90.7	91.6	90.8
Dadra & Nagar Haveli	103.1	—	103.1	—	—	—	—	—	—	103.1	—	103.1
Goa, Daman & Diu	24.2	83.7	24.4	36.9	62.0	37.6	—	—	—	32.3	62.8	32.9
Southern Region	**92.2**	**62.4**	**94.9**	**66.1**	**53.4**	**64.5**	**93.2**	**93.3**	**93.1**	**84.8**	**73.6**	**84.4**
Andhra Pradesh	97.3	60.9	102.3	69.9	41.8	68.9	76.3	57.9	75.1	78.1	55.0	78.3
Karnataka	90.6	54.2	97.8	75.1	53.9	73.1	90.0	74.8	88.4	86.8	66.6	86.7
Kerala	66.5	55.8	69.5	50.2	55.0	52.5	105.1	91.1	102.0	68.6	63.7	68.6
Tamil Nadu	96.9	76.0	95.6	77.1	51.9	73.1	108.4	115.7	109.4	99.3	93.4	98.6
Lakshadweep	27.4	—	27.4	—	—	—	—	—	—	27.4	—	27.4
Pondicherry	75.4	44.2	74.1	39.6	28.3	39.2	57.6	61.0	57.8	57.7	56.4	57.6
All India	**61.0**	**50.3**	**65.6**	**52.8**	**50.0**	**52.8**	**74.1**	**80.4**	**74.6**	**67.7**	**72.1**	**68.7**

* Public sector banks comprise State Bank of India, 7 Associate Banks of SBI and 20 nationalised banks.

@ Including Regional Rural Banks.

Note: The data are provisional.

Source: Quarterly Return on Aggregate Deposits and Gross Bank Credit.

Table VII-21: Frequency distribution of districts based on credit-deposit ratio of scheduled commercial banks (As on the last Friday)

(Rs.crores)

Credit-Deposit Ratio	June 1983			June 1984			June 1985		
	No. of Districts	Deposits@	Advances	No. of Districts	Deposits@	Advances	No. of Districts	Deposits@	Advances
Rural Offices									
Upto 20%	28	703	99	27	785	117	22	789	115
		(25)			(29)			(36)	
20% to 30%	27	782	195	25	700	165	26	881	219
		(29)			(28)			(34)	
30% to 40%	42	1097	384	41	1321	453	39	1697	609
		(26)			(32)			(44)	
40% to 50%	43	981	454	51	1228	546	44	1225	561
		(23)			(24)			(28)	
50% to 60%	51	808	445	53	1290	711	46	1040	572
		(16)			(24)			(23)	
60% and above	218	3286	3011	231	4187	3954	256	4878	4815
	(53.3)*	(15)		(54.0)*	(18)		(59.1)*	(19)	
Total	**409**	**7657**	**4588**	**428**	**9511**	**5946**	**433**	**10510**	**6891**
Semi-Urban Offices									
Upto 20%	19	896	149	20	1088	180	19	1146	194
		(47)			(54)			(60)	
20% to 30%	41	1527	386	40	1770	444	43	1904	463
		(37)			(44)			(44)	
30% to 40%	54	1887	663	52	2047	721	55	2274	817
		(35)			(39)			(41)	
40% to 50%	63	2591	1148	60	2159	965	76	3316	1504
		(41)			(36)			(44)	
50% to 60%	62	2369	1288	62	2717	1495	64	2989	1642
		(38)			(44)			(47)	
60% and above	128	3622	2912	140	4034	3227	139	5200	4265
	(34.9)*	(28)		(37.4)*	(29)		(35.1)*	(37)	
Total	**367**	**12892**	**6546**	**374**	**13815**	**7032**	**396**	**16829**	**8885**

@ Figures in brackets indicate amount of deposits per district under each size class.

* As percentage of total number of districts.

Note: The data are provisional.

Source: Quarterly Return on aggregate deposits and gross bank credit.

87.2 per cent to 64.7 per cent and 70.3 per cent, respectively, as may be observed from Table VII-22. The average deposits and bank credit per office registered significant increases during the period since June 1969 in respect of all the population groups.

The commendable efforts on the part of banks in deploying more funds in rural/semi-urban areas during the post-nationalisation period are reflected in the significant improvement in the credit-deposit ratio over the period. Between June 1969 and June 1985 the credit-deposit ratio of rural offices increased from 37.2 per cent to 65.6 per cent and in the case of semi-urban offices from 39.7 per cent to 52.8 per cent. The credit-deposit ratio for urban offices which was already high at 59.7 per cent in June 1969 rose further to 62.6 per cent in June 1985. The ratio for metropolitan offices, however, declined from 106.1 per cent to 82.6 per cent during the period.

Data on mobilisation of deposits by scheduled commercial banks classified according to population groups as at the end of June 1983 are

Table VII-22: Distribution of deposits and advances of scheduled commercial banks according to population groups (As on the last Friday)

(Rs.crores)

Population Group	June 1969		June 1984		June 1985		Increase (June 1969 to June 1985)	
	Deposits	Advances	Desposits	Advances	Deposits	Advances	Deposits	Advances
	1	2	3	4	5	6	7	8
Rural	**145**	**54**	**9,511**	**5,946**	**10,510**	**6,891**	**10,365**	**6,837**
Percentage to total	3.1	1.5	14.6	13.2	13.6	13.0	14.3	13.8
Average amount per office	0.10	0.04	0.39	0.24	0.37	0.24	—	—
Semi-Urban	**1,024**	**407**	**13,815**	**7,032**	**16,829**	**8,885**	**15,805**	**8,478**
Percentage to total	22.0	11.3	21.2	15.6	21.7	16.7	21.7	17.1
Average amount per office	0.31	0.12	1.49	0.76	1.60	0.84	—	—
Urban	**1,209**	**722**	**16,713**	**10,410**	**19,971**	**12,509**	**18,762**	**11,787**
Percentage to total	25.9	20.0	25.7	23.1	25.8	23.5	25.8	23.8
Average amount per office	0.63	0.38	2.45	1.52	2.69	1.7	—	—
Metropolitan	**2,287**	**2,426**	**25,017**	**21,705**	**30,071**	**24,837**	**27,784**	**22,411**
Percentage to total	49.0	67.2	38.5	48.1	38.9	46.8	38.2	45.3
Average amount per office	1.53	1.62	5.13	4.45	5.80	4.80	—	—
Total	**4,665**	**3,609**	**65,056**	**45,093**	**77,381**	**53,122**	**72,716**	**49,513**
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Average amount per office	0.57	0.44	1.43	0.99	1.50	1.03	—	—

Note: The data for June 1984 and June 1985 are provisional.

Source: BSR 1 and 2 for June 1969. Quarterly Return on Aggregate Deposits and Gross Bank Credit for June 1984 and June 1985.

presented in Table VII-23. It may be seen therefrom that the number of accounts and total deposits stood at 1,775 lakhs and Rs.54,448 crores, respectively, with an average of Rs.3,067 per account. The share of rural offices in total deposits has declined marginally from 14.7 per cent in December 1982 to 14.1 per cent in June 1983 while that of semi-urban offices has gone up from 22.6 per cent to 23.5 per cent in the same period. The combined share of rural and semi-urban offices in the total number of accounts worked out to 56.9 per cent representing an increase of 0.5 per cent over that in December 1982. The share of urban offices in total deposits at 24.9 per cent, however, showed an increase of 0.3 per cent over end-December 1982. Though the share of metropolitan offices in total deposits at 37.5 per cent was the highest, it was lower by 0.6 per cent than the December 1982 level.

Savings deposit accounts continued to claim the highest share (66.7 per cent) in the total number of accounts. Term deposits, however, claimed the largest share (56.0 per cent) in total amount of deposits. This trend was discernible in respect of all the population groups. Both in terms of number of accounts and amount, deposits in current account were not significant in rural and semi-urban regions. However, in the case of urban and metropolitan offices, current deposits were quite significant in terms of amount though not in terms of account indicating thereby that large accounts were held by a few big traders and businessmen.

A detailed analysis of the performance of banks in the post-nationalisation period brings into focus some inter-State disparities, though steps have been taken in recent years to reduce them. The total deposits of scheduled commercial banks increased by Rs.72,716 crores during the period between June 1969 and June 1985 and a major share of this increase was claimed by 5 States viz. Maharashtra, West Bengal, Uttar Pradesh, Tamil Nadu, Gujarat and Delhi which together accounted for slightly over 60 per cent.

Population group-wise data show that urban and metropolitan centres together accounted

Table VII-23: Distribution of deposits of scheduled commercial banks according to population group and type of deposits
(As on the last Friday of June 1983)

(No. of accounts in thousands)
(Amount in Rs. lakhs)

Population Group	Current			Savings			Term			Total		
	No. of Accounts	Amount Out-standing	Average Per Account (Rs.)	No. of Accounts	Amount Out-standing	Average Per Account (Rs.)	No. of Accounts	Amount Out-standing	Average Per Account (Rs.)	No. of Accounts	Amount Out-standing	Average Per Account (Rs.)
1	2	3	4	5	6	7	8	9	10	11	12	13
Rural	**9,87**	**561,15**	**5685**	**349,90**	**3121,88**	**892**	**113,44**	**3988,95**	**3516**	**473,21**	**7671,98**	**1621**
Per cent to total deposits category	13.2	7.1		29.5	19.5		22.0	13.1		26.7	14.1	
Per cent to total deposits	2.1	7.3		73.9	40.7		24.0	52.0		100.0	100.0	
Semi-Urban	**21,92**	**1382,40**	**6307**	**358,86**	**4358,25**	**1214**	**155,34**	**7073,31**	**4553**	**536,12**	**12813,96**	**2390**
Per cent to total deposits category	29.2	17.5		30.3	27.2		30.1	23.1		30.2	23.5	
Per cent to total deposits	4.1	10.8		66.9	34.0		29.0	55.2		100.0	100.0	
Urban	**20,55**	**1992,81**	**9697**	**253,64**	**3693,67**	**1456**	**131,17**	**7859,77**	**5992**	**405,36**	**13546,25**	**3342**
Per cent to total deposits category	27.4	25.1		21.4	23.1		25.4	25.8		22.8	24.9	
Per cent to total deposits	5.1	14.7		62.6	27.3		32.3	58.0		100.0	100.0	
Metropolitan	**22,66**	**3986,99**	**17595**	**221,80**	**4841,40**	**2183**	**116,31**	**11586,92**	**9962**	**360,77**	**20415,31**	**5659**
Per cent to total deposits category	30.2	50.3		18.8	30.2		22.5	38.0		20.3	37.5	
Per cent to total deposits	6.3	19.5		61.5	23.7		32.2	56.8		100.0	100.0	
Total	**75,00**	**7923,35**	**10564**	**1184,20**	**16015,20**	**1352**	**516,26**	**30508,95**	**5910**	**1775,46**	**54447,50**	**3067**
Per cent to total deposits category	100.0	100.0		100.0	100.0		100.0	100.0		100.0	100.0	
Per cent to total deposits	4.2	14.6		66.7	29.4		29.1	56.0		100.0	100.0	

Note: Data are provisional.
Source: Basic Statistical Returns.

for 64.0 per cent of the total deposits with semi-urban and rural offices claiming 21.7 per cent and 14.3 per cent, respectively. However, in terms of growth rates, the performance of rural offices was more impressive than the other groups. Rural deposits increased phenomenally from Rs.145 crores to Rs.10,510 crores. Deposits with semi-urban and urban/metropolitan offices moved up from Rs.1,024 crores and Rs.3,496 crores to Rs.16,829 crores and Rs.50,043 crores, respectively. Uttar Pradesh claimed the maximum share in the incremental deposits in respect of both rural and semi-urban areas with accretions of Rs.1,642 crores and Rs.1,900 crores, respectively. The share of other States in incremental rural deposits ranged between Rs.300 crores and Rs.1,100 crores. Kerala claimed the second place in regard to incremental deposit accretion in semi-urban areas with a share of Rs.1,824 crores which may perhaps be due to the large inflow of non-resident deposits. The share of other States ranged between Rs.500 crores and Rs.1,300 crores. The share of Maharashtra was the highest at Rs.11,405 crores in incremental urban/metropolitan deposits aggregating Rs.46,546 crores. Delhi, West Bengal, Uttar Pradesh and Maharashtra accounted for 60 per cent of such incremental deposits.

Credit deployment by scheduled commercial banks increased substantially from Rs.3,609 crores in June 1969 to Rs.53,122 crores in June 1985. Maharashtra claimed the highest share in incremental credit (Rs.11,902 crores) followed by Tamil Nadu (Rs.4,502 crores), Delhi (Rs.4,065 crores), Uttar Pradesh (Rs.3,638 crores) and West Bengal (Rs.3,495 crores). During the post-nationalisation period, rural offices stepped up their scale of operations significantly in the sphere of credit deployment as is evident from the surge in credit from Rs.54 crores to Rs.6,891 crores. As in the case of deposits, Uttar Pradesh led the field with the highest share of Rs.975 crores in incremental credit. The share of other States ranged between Rs.200 crores and Rs.800 crores.

Credit outstanding of semi-urban offices increased from Rs.407 crores to Rs.8,885 crores. Kerala accounted for the highest share (Rs.966 crores) of the incremental credit followed by Uttar Pradesh, Tamil Nadu, Andhra Pradesh, Maharashtra, Punjab, Gujarat and Karnataka.

There was a eleven-fold increase in credit extended by urban and metropolitan offices between June 1969 and June 1985. Of the incremental credit of Rs.34,198 crores, Maharashtra with an increase of Rs.10,727 crores accounted for the highest share followed by Delhi, Tamil Nadu and West Bengal.

Distribution of credit according to interest range

Data on scheduled commercial banks' credit classified according to interest range for the year ended June 1983 are presented in Table VII-24. There was a marked change in the distribution pattern of credit according to interest range between June 1982 and June 1983. There was a sharp increase in outstanding credit in the interest range of 17-18 per cent and corresponding decline in credit in the interest range of 18 to 20 per cent. Outstanding advances in the interest range between 17-18 per cent as a percentage of total credit shot up from 10 per cent to 28.4 per cent matched by a simultaneous decline from 29.6 per cent to 11.6 per cent in advances in the interest range of 18 to 20 per cent. This shift in credit from higher to lower interest range can be attributed to the halving of tax on the interest income of banks with effect from April 1, 1983 with a consequential reduction in maximum lending rates from 19.5 per cent to 18.0 per cent with effect from the same date.

GEOGRAPHICAL AND FUNCTIONAL COVERAGE OF BANKS

Branch expansion

The three year branch expansion policy which ended on March 31, 1985, with the added emphasis on balanced spatial distribution of branches, was instrumental in improving banking facilities in the rural and semi-urban areas. This is evident from the fact that during this

Table VII-24: Distribution of loans and advances * of scheduled commercial banks according to interest range
(As on the last Friday)

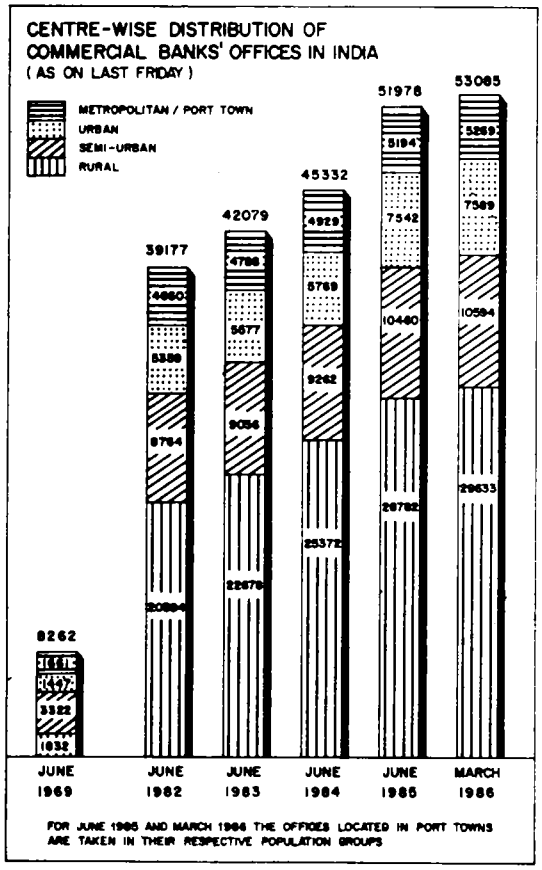
(Amount in Rs. crores)

Interest Range	June 1980		June 1981		June 1982		June 1983	
	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding
	1	2	3	4	5	6	7	8
6 per cent and less	51,438	232.2	65,050	376.2	68,819	406.2	86,176	472.9
	(4.6)	(1.6)	(4.8)	(2.2)	(4.5)	(1.9)	(4.8)	(1.9)
6 to 10 per cent	81,781	539.5	52,486	535.7	41,171	545.7	63,579	738.5
	(7.4)	(3.7)	(3.9)	(3.1)	(2.7)	(2.6)	(3.6)	(2.9)
10 to 12 per cent	410,383	4301.2	325,100	2681.6	261,515	2180.6	248,751	2641.2
	(37.1)	(29.4)	(24.2)	(15.7)	(16.9)	(10.3)	(13.9)	(10.3)
12 to 14 per cent	240,357	2398.7	411,382	4132.2	581,464	5810.6	773,799	6746.5
	(21.7)	(16.4)	(30.6)	(24.1)	(37.6)	(27.6)	(43.3)	(26.4)
14 to 15 per cent	150,992	2010.8	164,711	1235.9	235,294	1861.9	235,083	2238.5
	(13.6)	(13.7)	(12.3)	(7.2)	(15.2)	(8.8)	(13.2)	(8.8)
15 to 16 per cent	16,631	903.5	45,470	813.8	51,637	895.4	53,484	923.5
	(1.5)	(6.2)	(3.4)	(4.8)	(3.3)	(4.2)	(3.0)	(3.6)
16 to 17 per cent	75,599	2150.5	58,858	.996.7	49,351	914.9	56,095	1483.2
	(6.8)	(14.7)	(4.4)	(5.8)	(3.2)	(4.4)	(3.2)	(5.8)
17 to 18 per cent	75,409	2030.2	42,037	1668.6	49,344	2113.4	171,653	7261.6
	(6.8)	(13.9)	(3.1)	(9.7)	(3.2)	(10.0)	(9.6)	(28.4)
18 to 20 per cent	5,103	65.9	173,885	4611.7	200,744	6251.9	92,771	2971.5
	(0.5)	(0.4)	(12.9)	(26.9)	(13.0)	(29.6)	(5.2)	(11.6)
Above 20 per cent	179	1.7	5,354	84.8	6,652	116.6	4,492	78.4
	(—)	(—)	(0.4)	(0.5)	(0.4)	(0.6)	(0.2)	(0.3)
Total	**1107,872**	**14634.2**	**1344,333**	**17137.2**	**1545,991**	**21097.2**	**1785,883**	**25555.8**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**	**(100.0)**

* Relate to accounts with credit limits over Rs. 10,000; exclude inland and foreign bills purchased and discounted.
(—) Nil or Negligible.
Note: Figures in brackets indicate percentage to total.
Source: Basic Statistical Returns.

three year period, the district-wise average population per bank office in rural/semi-urban areas came down from 21,000 to 15,000, surpassing the target of 17,000 envisaged in the policy. However, several blocks have an average population per bank office of over 17,000 and in some blocks, there are still spatial gaps to be covered by bank offices.

The new branch licensing policy which will be co-terminus with the Seventh Five Year Plan covers the period April 1, 1985 to March 31, 1990. The policy which has been formulated keeping in view the need for banks to concentrate on consolidation of their position seeks to achieve a coverage of 17,000 population (1981 census) per bank office in rural and semi-urban areas of each block and to provide banking facilities in those pockets of rural areas where wide spatial gaps exist. Under the policy, hilly tracts, sparsely populated regions and tribal areas will be given special consideration and expansion in such areas will be allowed on a comparatively liberal basis taking into account existing gaps in the availability of banking facilities. It is also envisaged that a rural banked centre would cover an area of about 200 sq. kms. and that a rural branch would normally be available within a radius of 10 kms. Branch expansion in urban and metropolitan/port town areas will continue, as hitherto, to be restrictive and banks will be allowed to open offices in these areas on a highly selective basis.



During the period July 1985-March 1986 commercial banks (including RRBs) had opened 1,107 branches of which 827 were in unbanked centres. The branch network increased from 8,321 at the time of nationalisation of 14 major commercial banks to 53,085 offices by end-March 1986 (Table VII-25).

It may be observed from Table VII-26 that 851 branches were opened in rural areas during July 1985-March 1986 constituting 76.9 per cent of the total offices opened during this period. As at the end of March 1986, 45.3 per cent of all offices of State Bank of India and its associates, 46.2 per cent of the offices of nationalised banks and 32.1 per cent of the offices of other commercial banks were in rural areas. About 92.3 per cent of the offices of regional rural banks were in rural areas (Table VII-27).

Data on State-wise average population per bank office as at the end of June 1969, June 1985 and March 1986 are also presented in Table VII-25. The fact that the average population per bank office which was 65,000 at the end of June 1969 came down to 13,000 at the end of March 1986 highlights the efficacy of the branch expansion policy. With the utilisation of pending licences in deficit blocks numbering around 1,600, the position is expected to improve further. Of the 675 centres identified as unbanked block headquarters in the country, 626 were covered by branches of commercial banks/RRBs. Of the remaining centres, licences in respect of 41 were pending with the banks.

Indian banks' offices abroad

During the year 1985-86, no new branches were opened abroad by Indian banks. State Bank of India closed its Anuradhapura (Sri Lanka) and Bristol (U.K) branches and its representative office at Manila in Philippines. While UCO Bank closed its Mongkok and North Point branches in Hong Kong, Indian Overseas Bank closed down its Kwai Chung branch in Hong Kong and Bank of Baroda closed its Coventry (U.K.), Bolton (U.K), branches. Thus the number of branches (of 13 banks) and representative offices (of 4 banks) of Indian banks stood at 134 and 11 respectively, as on June 30, 1986 (Table VII-28).

Indian banks had 7 subsidiaries (of which 5 are wholly owned including 3 deposit taking companies) and 4 foreign bank affiliates (having less than 50 per cent share holding) as at the end of June 1986.

Primary (Urban) Co-operative Banks

The Primary Co-operative Banks (PCBs), commonly called Urban Co-operative Banks are small-sized co-operatively organised banking units. The PCBs operate in metropolitan, urban and semi-urban centres to cater mainly to the needs of small borrowers viz., owners of small-scale industrial (SSI) units, retail traders, professionals and salaried classes. The Reserve Bank is responsible for licensing of existing/new banks and branches, sanctioning of credit limits to SCBs by way of refinance on behalf of the PCBs for financing the SSI units,

Table VII-25: State-wise distribution of bank offices and population per bank office as at the end of June 1969, June 1985 & March 1986

State/Union Territory	No. of offices as at the end of			No. of offices opened				Population per bank office (in thousands) as at the end of		
	June 1969	June* 1985	March* 1986	1984-85 (July-June)	Of which at unbanked centres	1985-86 (July 1985-March 1986)	Of which at unbanked centres	June 1969	June 1985	March 1986
	1	2	3	4	5	6	7	8	9	10
Andhra Pradesh	567	4084	4120	574	442	36	24	75	13	13
Assam	74	872	968	149	125	96	84	198	23	21
Bihar	273	4039	4208	813	763	169	160	207	17	17
Gujarat	752	3011	3072	263	199	61	48	34	11	11
Haryana	172	1096	1105	84	50	9	5	57	12	12
Himachal Pradesh	42	539	548	26	21	9	5	80	8	8
Jammu & Kashmir	35	713	727	46	37	14	13	114	8	8
Karnataka	756	3851	3922	381	251	71	44	38	10	9
Kerala	601	2706	2721	120	77	15	7	35	9	9
Madhya Pradesh	343	3637	3713	446	390	76	60	116	14	14
Maharashtra	1118	4814	4903	411	307	89	50	44	13	13
Manipur	2	67	67	15	13	—	—	497	21	21
Meghalaya	7	125	128	25	22	3	3	147	11	11
Nagaland	2	64	65	9	7	1	1	205	12	12
Orissa	100	1691	1730	207	168	39	28	212	16	15
Punjab	346	1992	2004	146	104	12	5	42	8	8
Rajasthan	364	2616	2674	446	400	58	52	70	13	13
Sikkim	—	19	19	—	—	—	—	—	17	17
Tamil Nadu	1060	3909	3929	288	201	20	9	37	12	12
Tripura	5	136	136	16	14	—	—	276	15	15
Uttar Pradesh	747	7200	7330	1192	1006	130	95	119	15	15
West Bengal	504	3210	3382	467	366	172	125	87	17	16
Andaman & Nicobar Islands	1	13	14	—	—	1	1	82	14	13
Arunachal Pradesh	—	48	51	11	10	3	3	—	13	12
Chandigarh	20	105	107	6	—	2	—	7	4	4
Dadra & Nagar Haveli	—	6	6	—	—	—	—	—	17	17
Delhi	274	1042	1058	48	1	16	—	10	6	6
Goa, Daman & Diu	85	260	260	3	—	—	—	8	4	4
Lakshadweep	—	5	5	—	—	—	—	—	8	8
Mizoram	—	45	50	26	22	5	5	—	11	10
Pondichery	12	63	63	4	2	—	—	31	10	10
All India Total	**8262**	**51978**	**53085**	**6222**	**4998**	**1107**	**827**	**65**	**13**	**13**

* Revised figures based on computerised data.

Note: The average population per bank office is based on 1981 Census in Cols.9 and 10 and on 1961 Census in Col.8.

Source: Department of Banking Operations and Development, Reserve Bank of India.

Table VII-26: Share of rural offices in new offices

Period (July-June)	Total offices opened during the year	*Of which* those opened in rural areas	(2) as percentage of (1)
	1	2	3
1970-71	1882	1217	64.7
1975-76	2490	881	35.4
1980-81	3287	2550	77.6
1982-83	2902	2284	78.7
1983-84	3253	2694	82.8
1984-85	6222	5061	81.3
1985-86	1107	851	76.9
(July 1985-March 1986)			

as well as conducting their statutory inspections. The Reserve Bank was also responsible for processing of and recommending to the NABARD the loan applications of State Governments for contribution to share capital of PCBs till April 1, 1986. This arrangement has ceased to exist with effect from that date.

The number of PCBs increased from 1,310 at end-June 1984 to 1,331 at end-June 1985 and further to 1,346 at end-June 1986 which included 99 Salary Earners' Societies. Of the total number of PCBs, 461 were licensed including 9 Salary Earners' Societies. At end-March 1986, 2,995 offices of PCBs were functioning of which 245 belonged to Salary Earners' Societies. The latest data on their deposits and credit outstandings pertain to end-June 1985. The deposits with the PCBs increased from Rs.2,659 crores at end-June 1984 to Rs.3,255 crores by end-June 1985, registering an increase of 22.4 per cent as compared to 16.7 per cent increase during the preceding year. The amount of loans outstanding increased by 20 per cent as against an increase of 16.7 per cent during the earlier year. Some important indicators relating to PCBs' progress are given in the table VII-29.

Short-term Credit Limits

During the financial year 1985-86 (April-March), short-term credit limits for financing cottage and small-scale industrial units at concessional rate of interest i.e., 2.5 per cent below the Bank rate, aggregating Rs.25 crores were sanctioned by the Reserve Bank to 43 PCBs as against Rs.36 crores sanctioned to 70 PCBs in the preceding year. The outstandings under the above limits amounted to Rs.22 crores as on March 31, 1986 as against Rs.25 crores a year ago.

Long-term Credit

The arrangements with the NABARD for sanctioning of loans from NRC (LTO) Fund to State Governments for contribution to the share capital of PCBs which was in force during 1985-86 (April-March) was terminated with effect from April 1, 1986. During the year 1985-86 (April-March), applications for sanction of loans aggregating Rs.23.8 lakhs for contribution to the share capital of 16 PCBs were received from Governments of Andhra Pradesh, Karnataka, Manipur, Orissa, Rajasthan and Tamil Nadu. Applications for amounts aggregating Rs.14.8 lakhs for contribution to the share capital of 9 PCBs were recommended to the NABARD for sanction.

Policy Changes and Operations

Advances against Sensitive Commodities

During the year, directives were issued to PCBs extending the undernoted relaxations in regard to their advances against sensitive commodities:-

a) The base period for computing the peak level credit of borrowers was shifted to the

Table VII-27: Bank group-wise/population group-wise distribution of commercial bank offices in India.

Bank Group	Number of offices as on														
	19.7.1969+					30.6.1985**					31.3.1986**				
	Rural	Semi-Urban	Urban	Metro-politan/ Port Town	Total	Rural	Semi-Urban	Urban	Metro-politan	Total	Rural	Semi-Urban	Urban	Metro-politan	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
State Bank of India	462	796	163	150	1571	3473	2038	1112	668	7291	3584	2053	1116	676	7429*
	(29.4)	(50.7)	(10.4)	(9.5)	(100.0)	(47.6)	(28.0)	(15.3)	(9.1)	(100.0)	(48.2)	(27.6)	(15.1)	(9.1)	(100.0)
Associate Banks of SBI	358	375	86	75	894	1299	1116	576	349	3340	1306	1119	580	358	3363
	(40.0)	(42.0)	(9.6)	(8.4)	(100.0)	(38.9)	(33.4)	(17.2)	(10.5)	(100.0)	(38.8)	(33.3)	(17.2)	(10.7)	(100.0)
14 Nationalised Banks	703	1465	928	1072	4168	9916	4377	3951	3023	21267	10157	4436	3966	3064	21623*
	(16.9)	(35.1)	(22.3)	(25.7)	(100.0)	(46.6)	(20.6)	(18.6)	(14.2)	(100.0)	(47.0)	(20.5)	(18.3)	(14.2)	(100.0)
6 Nationalised Banks†						1464	712	812	515	3503	1481	734	815	523	3553
						(41.8)	(20.3)	(23.2)	(14.7)	(100.0)	(41.7)	(20.7)	(22.9)	(14.7)	(100.0)
Regional Rural Banks						11207	819	112	—	12138	11671	853	121	1	12646
						(92.3)	(6.7)	(1.0)		(100.0)	(92.3)	(6.7)	(1.0)	(—)	(100.0)
Other Commercial Banks	337	708	279	364	1688	1423	1398	979	639	4439	1434	1399	991	647	4471
	(20.0)	(41.9)	(16.5)	(21.6)	(100.0)	(32.1)	(31.5)	(22.0)	(14.4)	(100.0)	(32.1)	(31.3)	(22.2)	(14.4)	(100.0)
Total	**1860**	**3344**	**1456**	**1661**	**8321**	**28782**	**10460**	**7542**	**5194**	**51978**	**29633**	**10594**	**7589**	**5269**	**53085**
	(22.3)	**(40.2)**	**(17.5)**	**(20.0)**	**(100.0)**	**(55.4)**	**(20.1)**	**(14.5)**	**(10.0)**	**(100.0)**	**(55.8)**	**(20.0)**	**(14.3)**	**(9.9)**	**(100.0)**

* During the year Bank of Cochin, Lakshmi Commercial Bank and Miraj State Bank were amalgamated with State Bank of India, Canara Bank and Union Bank,respectively. The branches of Bank of Cochin (108), Lakshmi Commercial Bank (231) and Miraj State Bank (26) were transferred to State Bank of India, Canara Bank and Union Bank,respectively.

† Number of offices as on July 19, 1969 are included under "Other commercial banks",group.

** Revised figures based on computerised data. Classification of branches according to population groups is on the basis of 1981 Census.

\+ Classification of branches according to population groups is on the basis of 1961 Census.

Note: 1. Figures in brackets indicate percentage to total in each bank group.

2. Classification of Centres: Rural : Population upto 10,000; Semi-Urban : 10,001 to 1 lakh; Urban : Over 1 lakh to 10 lakhs; Metropolitan : Over 10 lakhs; Port Towns: Cochin, Kakinada, Mangalore, Nagapattinam, Okha, Paradeep, Port Blair, Pondichery, Kandla, Vishakapatnam, Tuticorin and Marmagoa. (Classified according to population from June 1985 onwards).

Source: Department of Banking Operations and Development, R.B.I.

Table VII-28: Offices* of Indian scheduled commercial banks outside India
(As at the end of June 1986)

Country	State Bank of India	Central Bank of India	Bank of India	Bank of Baroda	UCO Bank	Indian Overseas Bank	Indian Bank	Syndicate Bank	Punjab National Bank	Bharat Overseas Bank Ltd.	Punjab & Sind Bank	Union Bank of India	Canara Bank	Total
1. Bahamas	1	—	—	1	—	—	—	—	—	—	—	—	—	2
2. Bahrain	1	—	—	1	—	—	—	—	—	—	—	—	—	2
3. Bangladesh	1	—	—	—	—	—	—	—	—	—	—	—	—	1
4. Belgium	1	—	—	1	—	—	—	—	—	—	—	—	—	2
5. Cayman Islands	1	—	1	—	—	—	—	—	—	—	—	—	—	2
6. Channel Islands	—	—	1	—	—	—	—	—	—	—	—	—	—	1
7. Fiji Islands	—	—	—	11	—	—	—	—	—	—	—	—	—	11
8. France	1	—	1	—	—	—	—	—	—	—	—	—	—	2
9. Guyana	—	—	—	2	—	—	—	—	—	—	—	—	—	2
10. Hong Kong	1	—	2	—	2	6	—	—	—	—	—	—	—	11
11. Japan	2	—	2	—	—	—	—	—	—	—	—	—	—	4
12. Kenya	—	—	2	7	—	—	—	—	—	—	—	—	—	9
13. Maldive Islands	1	—	—	—	—	—	—	—	—	—	—	—	—	1
14. Mauritius	—	—	—	6	—	—	—	—	—	—	—	—	—	6
15. Oman	—	—	—	3	—	—	—	—	—	—	—	—	—	3
16. Panama	1	—	—	—	—	—	—	—	—	—	—	—	—	1
17. Seychelles	—	—	—	1	—	—	—	—	—	—	—	—	—	1
18. Singapore	1	—	1	—	3	1	1	—	—	—	—	—	—	7
19. South Korea	—	—	—	—	—	1	—	—	—	—	—	—	—	1
20. Thailand	—	—	—	—	—	—	—	—	—	1	—	—	—	1
21. Sri Lanka.	1	—	—	—	—	3	2	—	—	—	—	—	—	6
22. United Arab Emirates	—	—	—	8	—	—	—	—	—	—	—	—	—	8
23. United Kingdom	4	3	12	13	2	—	—	1	4	—	1	1	1	42
24. United States of America	4	—	2	1	—	—	—	—	—	—	—	—	—	7
25. West Germany	1	—	—	—	—	—	—	—	—	—	—	—	—	1
Total	**22**	**3**	**24**	**55**	**7**	**11**	**3**	**1**	**4**	**1**	**1**	**1**	**1**	**134**

* Excluding Representative Offices, Subsidiaries and Joint Ventures.

Source: Department of Banking Operations and Development, R.B.I.

Table VII-29: Progress of Primary Co-operative Banks*
(July-June)

Item	1982-83	1983-84	1984-85	1985-86
1. Total number of PCBs*	1,281 (106)	1,310 (101)	1,331 (102)	1,346 (99)
2. Total number of offices of PCBs*	2,637 (214)	2,751 (232)	2,897 (236)	2,995£ (245)
3. Deposits (Rupees crores)	2,278	2,659	3,255	N.A.
4. Loans outstanding (Rupees crores)	1,802	2,103	2,524	N.A.

N.A. = Not Available.
* Include Salary Earners' Societies, the figures for which are given in brackets.
£ Relates to end-March 1986.

year 1980-81, 1981-82 and 1982-83. With effect from April 4, 1986 the number of years was brought forward to 1981-82, 1982-83 and 1983-84.

b) Margin requirements were rationalised.
c) Advances upto an aggregate limit of Rs.50,000/- per borrower were exempted from all the stipulations of the selective credit control subject to the condition that the borrowers should deal with one bank only. With effect from April 1, 1986, this limit has been raised to Rs.1 lakh.
d) Advances to Roller Flour Mills against wheat were totally exempted from the regulations of the control.
e) Advances against raw cotton and kapas to cotton textile mills were also exempted from all the regulations of the control.

Lending to Priority Sectors

PCBs were required to ensure that by the end of June 1985 not less than 60 per cent of their total loans and advances should be to priority sectors of which 25 per cent should go to weaker sections of the society. In the case of banks whose advances to priority sectors were less than 40 per cent as on June 30, 1983, they were advised to step up their lendings to priority sectors by 10 per cent every year. Available information indicates that while smaller urban banks operating in urban and semi-urban areas have made significant strides in lending to priority sectors, the performance of bigger banks in this regard is far from satisfactory. This matter was reviewed by the Standing Advisory Committee for Urban Co-operative Banks at its meeting held in January 1986 and it was agreed to extend the period upto June 1986 for achieving the specified targets of lending to priority sectors.

Issue of Licences and Inspections

During 1985-86 (July-June), 33 PCBs (new as well as existing) were issued licences to commence/carry on banking business in India. Of the total number of 1,346 PCBs as at the end of June 1986, 461 were licensed. Permission to open 63 new offices was granted to PCBs by the Reserve Bank during 1985-86 (July-June). During 1985-86 (July-June), inspections of 470 PCBs were conducted under Section 35 of the Banking Regulation Act, 1949 (as applicable to co-operative societies) as against 400 in the previous year.

Credit Authorisation Scheme

During 1985-86 (July-June), 113 proposals from 19 PCBs involving an aggregate amount of Rs.56.3 crores seeking authorisation were received of which 85 proposals involving an aggregate amount of Rs.37.4 crores were approved. Advances aggregating Rs.12.25 crores in respect of 10 PCBs (9 of them acting as consortium) for financing housing schemes of the Maharashtra Co-operative Housing Finance Society Ltd. were also authorised.

DICGC Scheme for Financing of SSI Units and Small Borrowers

During the year 1985-86 (July-June), 16 unlicensed PCBs were recommended to DICGC for inclusion in the list of eligible credit institutions for availing of the Small Loans (SSI) Guarantee Scheme, 1981 and Small Loans (Co-operative Banks) Guarantee Scheme, 1984. Besides, 33 PCBs (including newly organised banks) which were granted licences to commence/carry on banking business have become eligible for availing the facilities under the credit guarantee scheme.

Study Teams/Committees

Standing Advisory Committee for Urban Co-operative Banks

The fifth meeting of the Standing Advisory Committee for Urban Co-operative Banks was held in January 1986. The committee discussed, among others, important matters such as revision in the viability norms of urban co-operative banks, representation of urban co-operative banks on the board of management of SCBs/CCBs and the need for streamlining the procedure for appointment of Chief Executives of PCBs. It also reviewed the policies relating to refinance facilities for small-scale/cottage industrial units, licensing of existing banks and the performance of urban co-operative banks in lending to priority sectors.

Regional Rural Banks

Branch Expansion Programme

The main thrust of the policy enunciated for the period 1982-85 was on improving banking facilities in rural areas with a view to providing adequate coverage and proper spatial distribution of bank offices.

The main objective of the branch licensing policy for the period April 1985 to March 1990 (co-terminus with the Seventh Five Year Plan) will be to provide banking facilities in deficient rural areas, specially where identifiable spatial gaps exist. The expansion will be allowed taking into account the need, spatial gaps and financial viability of proposed branches. Hilly tracts, sparsely populated regions and tribal areas will be given special consideration and expansion in such areas will be allowed on a comparatively liberal basis taking into account existing gaps in the availability of banking facilities.

As hitherto, priority will continue to be given to regional rural banks in the allotment of identified centres in districts covered by them. In other areas, allotment of centres will be made to commercial banks generally on the basis of their representation in the district area.

Setting up of new RRBs

As on June 30, 1986, 193 RRBs have been established covering 341 districts of the country thus exceeding the Sixth Plan target of setting up 170 RRBs covering 270 districts. The names of the sponsor banks and the number of RRBs established upto the end of June 1986 are as under:

Sponsor Bank	No. of RRBs
State Bank of India	30
Central Bank of India	23
Bank of Baroda	19
Punjab National Bank	17
Bank of India	16
United Bank of India	11 each
UCO Bank	
Syndicate Bank	10
Canara Bank	8
Allahabad Bank	7
State Bank of Hyderabad	4 each
Dena Bank	
Union Bank of India	
State Bank of Bikaner & Jaipur	3 each
State Bank of Saurashtra	
Bank of Maharashtra	
Indian Bank	
Indian Overseas Bank	
State Bank of Mysore	2 each
Andhra Bank	
The Jammu & Kashmir Bank Ltd.	
State Bank of Patiala	1 each
State Bank of Indore	
Corporation Bank	
New Bank of India	
Punjab & Sind Bank	
Vijaya Bank	
Bank of Rajasthan Ltd.	
The U.P. State Co-operative Bank Ltd.	

As at the end of December 1985,RRBs had a network of 12,606 branches compared with 10,245 as at the end of December 1984. Uttar Pradesh had the largest number of branches (2,745). State-wise position of RRBs, their branches and districts covered by them is given in Table VII-30.

Table VII-30: State-wise offices of regional rural banks

State/Union Territory	No. of RRBs as on 30.6.1986	No. of districts covered as on 30.6.1986	No. of branches as on 31.12.1985
Andhra Pradesh	15	20	985
Assam	5	12	320
Bihar	22	37	1773
Gujarat	9	15	288
Haryana	4	9	214
Himachal Pradesh	2	4	90
Jammu & Kashmir	3	10	259
Karnataka	13	19	966
Kerala	2	5	262
Madhya Pradesh	24	44	1400
Maharashtra	10	17	445
Manipur	1	8	22
Meghalaya	1	3	39
Nagaland	1	7	8
Orissa	9	13	764
Punjab	5	10	107
Rajasthan	14	27	954
Tamil Nadu	2	5	150
Tripura	1	3	77
Uttar Pradesh	39	51	2745
West Bengal	9	15	693
Arunachal Pradesh	1	4	12
Mizoram	1	3	33
Total	**193**	**341**	**12606**

Operations of RRBs

The deposits and advances of 188 RRBs amounted to Rs.1,286 crores and Rs.1,408 crores as at the end of December 1985 as compared with Rs.960 crores and Rs.1,081 crores, respectively, a year ago. Available data on credit extended by RRBs upto December 1985 show that direct advances of 188 reporting RRBs amounted to Rs.1,375 crores. Purpose-wise break-up of outstanding direct advances is given below:

Purpose	Amount (Rs. crores)
Short-term (Crop loans)	264
Term loans for agricultural activities	315
Allied activities	237
Rural artisans, village and cottage industries	80
Retail trade and self-employed etc.	366
Consumption loans	11
Other purposes	102
Total	**1375**

Advances to weaker sections at Rs.1,273 crores accounted for 92.6 per cent of the total direct advances. Indirect advances during the same period amounted to Rs.33 crores of which a sizeable portion was provided to weaker sections. Their advances under Integrated Rural Development Programme (IRDP) during the year ended December 1985, which constituted 13.2 per cent of the total direct advances amounted to Rs.181 crores in 7,92,961 accounts as compared with Rs.211 crores in 9,76,985 accounts during the year ended December 1984.

Refinance facilities from NABARD

The NABARD's policy regarding the sanction of composite, short-term and medium-term (non-schematic) limits for 1985-86 continued but certain changes were introduced during the year. The salient features are given below:

The RRBs which have not completed 5 years of existence as on July 1, 1985, will continue to be eligible for composite limit but those which have completed 5 years as on July 1, 1985 will have to apply for separate limits viz. a) short-term and b) medium-term (non-schematic). The application for credit limits will not be considered in respect of RRBs whose total overdues as on June 30, 1984 were 60 per cent or more of the total demand for the year 1983-84. However, applications from such ineligible RRBs which showed improvement in their recovery performance and brought down their overdues as at end-June 1985 or later to within 60 per cent of the demand for the year 1984-85 will be considered by NABARD on their furnishing the latest position of demand, collection and balance (DCB). Drawals on credit limits from NABARD will be permitted subject to the availability of non-overdue cover and the non-overdue cover discipline has been introduced for the RRBs for the year 1985-86 with a view to checking the rising trend in overdues and to ensure certain inbuilt discipline. RRBs whose audited accounts/audit reports for 1983-84 have not been received, will not be considered for sanction of refinance limits.

The low deposit mobilisation efforts and over-extended position of advances have resulted in credit-deposit ratios of RRBs rising rapidly and in some cases the ratios were as high as 300 per cent as compared with the all-India average of 113 per cent for all RRBs. In view of the serious financial problems faced particularly by RRBs whose recovery performance is not satisfactory, it has been decided to introduce a time-bound programme to reduce the credit-deposit ratio to 100 per cent over a period of 3-5 years as follows:

Those RRBs whose credit-deposit ratio is more than 150 per cent as on December 31, 1985, will be given 5 years time from January 1, 1986 to enable them to bring down the level to 100 per cent and RRBs with a ratio of more than 100 per cent but less than 150 per cent will be given 3 years limit to bring down the ratio to 100 per cent.

During the year 1985-86, NABARD sanctioned short-term/composite limits aggregating Rs.228.37 crores to 133 RRBs and MT (non-schematic) limits to the extent of Rs.41.23 crores to 34 RRBs. The outstandings against these limits were Rs.199.40 crores (ST/composite) and Rs.138.90 crores MT (non-schematic) as on the last Friday of February 1986. The RRBs had also availed long-term refinance from NABARD. As at the end of September 1985, 967 schemes involving NABARD's commitment to the tune of Rs.468.80 crores were sanctioned to RRBs and drawals amounted to Rs.375.53 crores as on that date, as compared with 737 schemes involving a commitment of Rs.327.60 crores and drawals of Rs.248.45 crores at the end of December 1984.

Refinance from sponsor banks

Refinance availed by RRBs from the sponsor banks was Rs.205.48 crores as at the end of December 1985 as compared with Rs.178.58 crores as at the end of December 1984.

Steering Committee on RRBs

The third meeting of the Steering Committee on RRBs was held in February 1986 to consider, *inter-alia*, setting up of a few RRBs on a priority basis in areas with insufficient banking facilities and having predominantly scheduled caste and scheduled tribe population, pending announcement of such a long-term policy by the Government. Proposals approved by the Committee have been forwarded to the Government.

Study Groups/Committees

Agricultural Finance Corporation which was commissioned by NABARD to undertake a study on the viability of RRBs has since completed the study. Its report, however, did not offer any immediate solution to the viability problems of these institutions. In the context of the poor financial performance of these institutions and with a view to taking a long-term policy decision on the future of the existing RRBs as well as the establishment of new ones in future, the Government has in the meanwhile constituted a Working Group headed by the Additional Secretary (Banking). The findings of the study conducted by AFC have been made available to the Working Group. The report of the Working Group is now under consideration of the Government.

Export Credit Guarantee Corporation of India

During the financial year 1985-86, the Export Credit Guarantee Corporation of India (ECGC) issued 5,280 standard policies and guarantees as against 6,740 in 1984-85. The policies and guarantees in force at the end of March 1986 stood at 9,698 compared with 9,652 at the end of March 1985. The value covered under insurance policies and other schemes during 1985-86 amounted to Rs.1,712.48 crores (Rs.2,240 crores in 1984-85) and export advances covered under financial guarantees stood at Rs.8,173 crores (Rs.8,106 crores in 1984-85). Scheme-wise details are furnished in Table VII-31. The premium earned during 1985-86 was Rs.19.75 crores as against Rs.25.31 crores in the previous year excluding that under exchange fluctuation risk cover scheme. Policies with maximum liability of Rs.3.28 crores were issued under the exchange fluctuation risk cover scheme during 1985.

During 1985-86, the total value of gross claims paid amounted to Rs.16.05 crores and value of claims recovered amounted to Rs.1.34 crores resulting in net claims paid of Rs.14.71 crores.

Performance during the quarter April-June 1986

During 1986 (April-June) ECGC issued 1,436 standard policies and guarantees as against 1,194 in 1985 (April-June). The standard policies and guarantees in force at the end of June 1986 stood at 9,437 compared with 9,723 at the end of June 1985 (Table VII-31). The value covered under insurance policies and other schemes during 1986 (April-June) amounted to Rs.528.86 crores (Rs.401.53 crores in the first quarter of 1985) and export advances covered under financial guarantees, stood at Rs.1,533.34 crores (Rs.1,859.61 crores in the corresponding quarter of 1985). The premium earned during 1986 (April-June) was Rs.2.98 crores as against Rs.3.09 crores in 1985 (April-June) (excluding premium earned under exchange fluctuation risk cover scheme). Policies with maximum liability of Rs.0.17 crore were issued under the exchange fluctuation risk cover scheme during 1986 (April-June) as against Rs.1.28 crores in 1985 (April-June).

During 1986 (April-June) total value of gross claims paid amounted to Rs.2.57 crores and value of claims recovered amounted to Rs.0.33 crore with a result net claims paid amounted to Rs.2.24 crores.

Deposit Insurance and Credit Guarantee Corporation

The Deposit Insurance and Credit Guarantee Corporation (DICGC) made notable progress in fulfilling its twin objectives of giving insurance protection to bank depositors and guarantee support in respect of credit extended by

Table VII-31: ECGCI's guarantees and standard policies for exporters (April-March)

(Rs. crores)

Type	No. of Policies and Guarantees (April-March)				Bank Finance (April-March)		No. of Policies and Guarantees (April-June)				Bank Finance (April-June)	
	Issued during		In force at the end of		Guarantees availed of		Issued during		In force at the end of June		Guarantees availed of	
	1984-85	1985-86	1984-85	1985-86	1984-85	1985-86**	1985	1986	1985	1986	1985	1986**
	1	2	3	4	5	6	7	8	9	10	11	12
Standard Policies	4307	2939	7253	7220	—	—	653	948	7285	6914	—	—
Packing Credit Guarantees	526	619	515	600	6199.41	5918.74	113	130	522	650	1362.61	1112.42
Post-shipment Guarantee	771	752	694	675	1844.78	2212.13	184	156	688	654	475.60	414.06
Export Finance Guarantee	122	66	147	101	8.69	6.47	18	17	134	102	1.51	1.65
Export Performance Finance Guarantees	12	7	5	4	12.06	6.03	2	2	7	5	0.95	1.17
Export Production Guarantee	846	849	967	1034	41.40	29.53	213	174	1015	1045	6.29	3.64
Special Scheme (Transfer Guarantee, Buyer Credit Insurance, Line of Credit Insurance and Overseas Investment Insurance Schemes)	156	48	71	64	215.89	29.15	11	9	72	67	12.65	0.40
Total	**6740**	**5280**	**9652**	**9698**	**8322.23**	**8202.05**	**1194**	**1436**	**9723**	**9437**	**1859.61**	**1533.34**

Note: Figures are provisional.

** For short-term guarantees only.

Source: Export Credit Guarantee Corporation of India Ltd.

eligible credit institutions to certain categories of small borrowers (including farmers, village artisans etc.) particularly those belonging to weaker and neglected sections of the society.

Deposit insurance function

The number of insured banks went up from 1,814 in March 1985 to 1,842 in March 1986 and comprised 83 commercial banks, 189 regional rural banks and 1,570 co-operative banks. At the end of 1985, the deposit insurance scheme covered co-operative banks in fourteen States and three Union Territories. As regards co-operative banks in other States, efforts are underway to extend the scheme to Haryana, Sikkim, Bihar and Manipur.

The limit for insurance cover and the rate of insurance premium remained unchanged. Insured deposits of banks amounted to Rs.56,211 crores at the end of June 1985 and constituted 73.5 per cent of the total assessable deposits of Rs.76,517 crores. Fully protected accounts numbered 2,145 lakhs at the end of June 1985 and formed 95.8 per cent of the total deposit accounts of 2,238 lakhs. The total amount of deposit insurance claims paid and provided for since inception of the Scheme upto the end of March 1986, in respect of 14 commercial banks and 15 co-operative banks aggregated Rs.1.13 crores and Rs.2.31 crores, respectively. The Corporation has received from the commercial and co-operative banks Rs.1.13 crores towards repayment.

Credit guarantee schemes relating to small borrowers

At the end of March 1986, 246 banks — 71 commercial banks and 175 regional rural banks — participated in the Corporation's Small Loans Guarantee Scheme, 1971. The number of financial corporations participating in the Small Loans (Financial Corporations) Guarantee Scheme, 1971 increased to 20, while the number of credit institutions participating in the Service Co-operative Societies Guarantee Scheme, 1971 stood at 171 at the end of March 1986 comprising 58 commercial banks, 76 regional rural banks and 37 co-operative banks. The participants in the Small Loans (Co-operative Banks) Guarantee Scheme, 1984 introduced by the Corporation with effect from 1st July 1984 increased from 25 at the end of March 1985 to 41 at the end of March 1986.

Total amount of advances guaranteed under these Schemes increased from Rs.7,104 crores to Rs.8,923 crores during the year ended June 1985 indicating a rise of 25.6 per cent (Table VII-32). The Small Loans Guarantee Scheme, 1971 continued to account for the bulk of total guaranteed advances (99.2 per cent). Advances to farmers and agriculturists accounted for 57 per cent of the guaranteed advances to small borrowers followed by transport operators (17.7 per cent), retail traders (10.9 per cent), business enterprises (5.3 per cent), professional and self-employed persons (5.5 per cent) and the residual category of borrowers under the Differential Rate of Interest Scheme (3.9 per cent).

Guarantee claims numbering 4.55 lakhs were preferred during 1985-86 for Rs.113.40 crores. Claims received since inception of the Schemes upto the end of March 1986 numbered 13.61 lakhs for Rs.306.15 crores and formed 3.4 per cent of the total guaranteed advances of Rs.8,923 crores at the end of June 1985. During the same period 5.91 lakh claims for Rs.139.28 crores were disposed off; the claims scrutinised and disposed off since inception of the schemes till March 1986 being 12.68 lakh claims for Rs.243.29 crores.

Credit guarantee schemes relating to small-scale industries

The number of institutions which participated in the Corporation's Small Loans (SSI) Guarantee Scheme, 1981 increased from 423 in March 1985 to 457 in March 1986; they comprised 69 commercial banks, 140 regional rural banks, 14 State Financial Corporations, 8 other state development agencies and 226 co-operative banks.

Table VII-32: Credit facilities guaranteed by Deposit Insurance and Credit Guarantee Corporation

(Rs.crores)

	Scheme/Category of borrowers	As at the end of June					
		1972	1981	1982	1983	1984	1985
		1	2	3	4	5	6
A.	**Small Loans Guarantee Scheme, 1971**	**205.7**	**3,546.2**	**4,819.8**	**5,736.4**	**7,045.4**	**8,842.3**
	Farmers and agriculturists	134.7	2,267.5	3,041.6	3,594.8	4,182.0	5,057.7
	Transport operators	28.3	477.6	731.3	937.7	1,239.6	1,510.2
	Retail traders	28.3	398.9	511.8	574.8	709.8	972.5
	Professional and self-employed persons	9.1	165.7	199.1	240.8	326.9	484.9
	Business enterprises	5.3	150.1	209.7	239.6	322.5	473.4
	Residual category of borrowers under the DRI Scheme	—	86.6	126.2	148.7	264.5	343.6
B.	**Small Loans (financial corporations) Guarantee Scheme, 1971**	**2.6**	**10.9**	**18.6**	**35.6**	**52.7**	**69.2**
	Transport operators	2.4	10.3	18.4	35.4	52.3	68.9
	Business enterprises	0.2	0.6	0.2	0.2	0.4	0.3
C.	**Service Co-operative Societies Guarantee Scheme, 1971**						
	Service co-operative societies	0.1	1.3	1.5	1.8	0.5	0.7
D.	**Small Loans (co-operative banks) Guarantee Scheme, 1984**	—	—	—	—	5.7@	10.8
	Total (A+ B+ C +D)	**208.4**	**3,558.4**	**4,839.9**	**5,773.8**	**7104.3**	**8923.0**
E.	**Small Loans (Small-scale industries) Guarantee Scheme, 1981**						
	All SSI units including artisans, village/cottage industries etc.	—	3,716.4*	3,822.1	4,153.7	4,890.9	5,843.7
	Total (all schemes)	**208.4**	**7,274.8**	**8.662.0**	**9,927.5**	**11,995.2**	**14,766.7**

— Nil or negligible.

* As at the end of March 1981.

@ As at the end of December 1984. The borrower-wise breakdown is as follows: Transport operators Rs.1.8 crores, Retail traders Rs.2.6 crores, professional & self employed persons Rs.1.1. crores. Business enterprises Rs.0.2 crore.

Source: Deposit Insurance & Credit Guarantee Corporation.

The total guaranteed advances to small-scale industries moved up from Rs.4,891 crores to Rs.5,844 crores during the year ended June 1985, indicating a rise of 19.5 per cent. During 1985-86, 21,835 claims for Rs.78.59 crores were received and 27,251 claims for Rs.40.46 crores were disposed off.

Total receipt and disposal of claims since the inception of the Scheme till March 1986 were 61,162 claims for Rs.194.02 crores and 51,566 claims for Rs.72.69 crores, respectively.

As regards Government's Guarantee Scheme for small-scale industries which was discontinued from 31st March 1981 (the Corporation has been acting as an agent for the discharge of residual functions), the Corporation in addition to taking over 30,826 claims for Rs.98.18 crores as on April 1, 1981 received 41,314 claims for Rs.81.70 crores till the end of March 1985. The Corporation received during 1985-86, 5,614 claims for Rs.14.87 crores and disposed off 9,367 claims for Rs.44.19 crores. The Corporation disposed off 75,160 claims for Rs.151.44 crores till March 1986.

Significant developments

Advances granted to all SSI undertakings, with investment in plant and machinery not exceeding Rs.35 lakhs and all ancillary industrial undertakings with investment in plant and machinery not exceeding Rs.45 lakhs were made eligible for guarantee cover under the SSI Scheme. This is a sequel to the Government of India revising the definition of SSI units effective March 18, 1985.

Advances to SSI units engaged in ship breaking/dismantling activities were made eligible for guarantee cover under the Small Loans (SSI) Guarantee Scheme, 1981.

COMMITTEES/WORKING GROUPS RELATING TO BANKING

Committee of Direction (COD)

The COD, originally set up in 1975 and reconstituted in July 1983, serves as a forum to examine, on an on-going basis, the problems arising out of the implementation of Tandon Committee recommendations. The COD had set up 7 sub-committees for the purpose of monitoring the implementation of various recommendations upto the end of March 1985. During the year, instructions were issued to banks prescribing norms for inventory and receivables in respect of certain groups under electricals industry.

In view of the widespread growth of the electronics industry, a separate sub-committee was appointed during the year to lay down the norms for this industry. Another sub-committee was also set up during the year to lay down norms relating to tyre industry and also to review the norms relating to 'other rubber products'.

Standing committees on co-ordination of institutional finance for certain industries

The Committees which have been in existence during the last 3 years were set up with a view to taking a co-ordinated view on credit requirements and related problems of four major industries, *viz.* jute, tea, sugar and fertilisers. During the year under review, the Committee on sugar industry met twice to discuss the various problems affecting sugar industry. A mention was made in last year's Report about the report of the sub-committee constituted to review the inventory/receivables norms for fertiliser industry. The Standing Committee has considered the report and has accepted the recommendations of the sub-committee, with certain modifications. Suitable guidelines would be issued to banks shortly regarding revised norms.

The Standing Committee for jute met once during the year mainly to discuss the progress made in the implementation of the rehabilitation packages evolved for potentially viable sick jute mills. The trend in raw jute prices, the size of the jute crop were among other issues that were discussed in the meeting.

During the year, the Committee for tea met once in Calcutta to discuss the various problems faced by the industry.

Standing Committee on Export Finance

During the period under review, this high-powered policy making Committee on export finance, discussed various problems faced by the exporting community. Some of the important decisions taken by the Committee are set out below:

a) Although the recommendation of the sub-group relating to raising of resources by banks by resorting to rediscounting/acceptance facilities abroad was accepted in principle, it was decided, that in view of the liquidity in the banking system, Reserve Bank might review the position.

b) Commerce Ministry has agreed to Reserve Bank's proposal for making available enhanced subsidy at 3 per cent to banks on rescheduled deferred instalments on case-to-case basis, on merits, in cases where Government of India enters into an agreement on Government-to-Government basis.

c) Post-supply credit facilities at concessional rate of interest were granted for 'deemed exports' upto 30 days. A circular to this effect has been issued.

Committee on Interest Rate on Export Credit

A mention was made in last year's Report about the decision to constitute a committee to study the structure of interest rates on export credit. The Committee headed by Dr. (Miss.) S.K. Verghese of National Institute of Bank Management with members from SBI, Exim Bank, Government of India and RBI, has been set up in January 1986. It is expected to submit its report within six months.

All-India Export Advisory Committee (AIEAC)

The above Committee was constituted by Reserve Bank of India in October 1983 in order to have a continuing dialogue and to receive adequate feedback from exporting community on problems of export credit and foreign exchange. The Committee met thrice during the year under review. The various recommendations of the Committee have been brought to the notice of the Standing Committee on Export Finance for information/decision thereon.

One-day Seminar on Export Credit

The Bank had been conducting one day seminars on 'Export-Credit' at different centres in the country to bring together in a common forum, both the bankers and exporters to discuss the various facilities available in the field of export credit. Three such seminars were held during 1985-86.

Standing Advisory Committee to review the flow of institutional credit to small-scale industries (SSI) sector

The Reserve Bank of India has appointed a Standing Advisory Committee in April 1986 comprising representatives from Government of India, NABARD, IDBI, IRBI, financial institutions and small-scale industries. The terms of reference of the committee include among other things (i) review of the flow of institutional credit for small-scale industries, (ii) identification of operational deficiencies, if any, and proposed remedial measures; (iii) review of the arrangements available for upgradation of entrepreneurial skills and modern technology in respect of small-scale industrial units and suitable recommendations thereof and (iv) review of the problems of sickness in small-scale industrial units in relation to the role of various agencies concerned and recommendation of suitable remedial action.

Committee to consider problems in identification and rehabilitation of sick SSI units

The Reserve Bank of India set up a committee in February 1986 to consider the problems in identification and rehabilitation of sick small-scale industrial units. The Committee will examine (i) the definition of a sick SSI unit, (ii) identify incipient sickness in SSI

units, (iii) formulate parameters for provision of relief/concessions by commercial banks, SFCs, State Governments and other agencies under rehabilitation packages evolved for sick SSI units considered as potentially viable and look into the need for establishment of a suitable machinery for identification of sickness, (iv) evolve rehabilitation packages in the case of potentially viable units, and (v) follow-up and monitoring implementation.

Committee on rehabilitation of sick industrial undertakings

In pursuance of one of the recommendations of Tiwari Committee, instructions have been issued to public sector banks to utilise to the extent possible the services of their own whole-time law officers, to appear on their behalf in court cases. The committee had also recommended a special legislation for speedy recoveries of banks'/financial institutions' dues through special tribunals. The RBI and the Government of India have accepted this recommendation and its implementation is at an advanced stage. The Bank has also impressed upon the Government that the burden of reviving sick units should be borne not only by the banks and financial institutions, but also by the Central and State Governments besides promoters, labour etc. Other aspects recommended for action by the Government relate to:

a) tax relief to banks in respect of unrealised interest on advances to sick units;

b) setting up and maintenance of a pool of professionally capable managers in the form of an industrial management service; and

c) adoption of inflation accounting, etc.

Working Group on project exports

The above Working Group constituted for giving package clearance to exporters, to export goods and services, including turnkey projects and civil construction contracts abroad on deferred payment terms, considered 185 proposals and cleared 153 of them during the financial year 1985-86. At present the projects above Rs.5 crores, are being cleared by the Working Group as against Rs.2 crores, earlier.

Task Force on rationalisation of returns

A small Task Force comprising officers from different departments of the Reserve Bank of India, DICGC and NABARD was constituted to examine the recommendations of the sub-committee constituted by Indian Banks' Association to examine the problems and the feasibility of 'rationalisation of returns'. The Task Force was to consider whether there was any duplication in the returns submitted by banks to Reserve Bank of India/Government and whether the formats and periodicity of submission needed any change, and to examine the need to standardise the concept/terminology in the various returns and changes, if any, in the various Acts/statutes, etc. The Task Force submitted its report to Indian Banks' Association on February 22, 1986. Out of the 94 returns examined by the sub-committee of Indian Banks' Association, 17 were submitted to Government of India and these were referred to them for their views. Of the remaining 77, 46 specific recommendations have been accepted.

Committee to consider final accounts of banks

The Committee set up by Reserve Bank of India to go into certain aspects relating to final accounts of banks submitted its report in April 1985. The report has been processed and decisions in regard to various recommendations made therein have been conveyed to Government in August 1986. Government's views are awaited.

Working Group report on the systems for overseas operations

A Working Group comprising senior officials of Reserve Bank of India, Ministry of Finance and major public sector banks set up for framing suitable guidelines on the systems for overseas operations, submitted its report in August 1985. The Group has made several recommendations on various systems and areas and these

were examined in the Reserve Bank of India. Most of the recommendations have been accepted; in respect of a few certain modifications have been considered necessary. Guidelines based on some of the recommendations have since been issued to banks for implementation.

Working Group on bank credit to State handloom development corporations

The Working Group appointed in June 1984 to study operational problems of state handloom development corporations in relation to bank credit completed field studies in Karnataka, Tamil Nadu, West Bengal, North-eastern region and Uttar Pradesh. The field visits facilitated the Working Group in understanding the various operational problems of the industry. A preliminary draft report of the Working Group has been prepared.

Other Banking Developments

Capital base of banks

During the year, the authorised capital of State Bank of India was raised from Rs.20 crores to Rs.200 crores. Its subscribed and paid-up capital was raised from Rs.5.625 crores to Rs.50 crores by an additional issue of 44,37,500 shares. During 1985, the authorised capital of the associates of State Bank of India was increased to Rs.10 crores each. The total issued and paid-up capital of all these banks was increased from Rs.5 crores to Rs.22.45 crores. As per the scheme of augmentation of capital of nationalised banks, Government of India is to contribute about Rs.2,000 crores by the end of Seventh Five Year Plan in five annual instalments. The amount of Rs.400 crores earmarked by the Government in 1985-86 for this purpose was released in December 1985. The allocation among 20 nationalised banks has been done with a view to attaining owned funds-deposits ratio of 2.5 per cent by the end of Seventh Plan. The contribution made by the Government towards the share capital of these banks stands simultaneously invested in non-negotiable special securities floated by the Government bearing interest at 7.75 per cent.

Banking and other allied laws

The Banking Laws (Amendment) Act, 1985 amending various statutes, mainly the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and 1980, RBI Act, 1934, etc. was enacted in December 1985. Some of the provisions of the Act were brought into force with effect from December 30, 1985 and the remaining provisions with effect from May 1, 1986. Some of the important amendments made were as follows:

Section 17(4A) of RBI Act, 1934 has been amended raising the borrowing powers of the SFCs to twice their paid-up capital instead of the earlier limit of 90 per cent.

Sections 3 and 9 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and 1980 have been amended raising the ceiling on the paid-up capital and reserves of nationalised banks from Rs.15 crores to Rs.100 crores so as to improve the banks' debt-equity ratio and profitability.

By an amendment of the First Schedule of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, the name of United Commercial Bank has been changed to UCO Bank.

Exemption of public sector banks from Section 193 of Income Tax Act, 1961 for certain items

Government have by their notification dated December 4, 1985 (amended on January 29, 1986) exempted all public sector banks from the purview of Section 193 of Income Tax Act, 1961 in respect of deduction of tax at source from the interest accruing on investments made by them in Central/State Government securities.

Special legislation for recovery of banks' dues

Government has accepted the recommendation of the Tiwari Committee to set up special tribunals to adjudicate on issues relating to recovery of banks' dues. A Committee of legal experts has been constituted to prepare the draft of the legislation for this purpose. It has also been decided to vest special powers in favour of the banks and financial institutions similar to those conferred on IFCI and SFCs under their respective statutes. The draft legislation prepared in this connection is under consideration.

Customer service

A number of steps have been taken to improve the quality of customer service rendered by banks besides monitoring the implementation by banks of the recommendations of the Working Group on Customer service. Based on the findings of an impressionistic survey carried out by the Reserve Bank during July/August 1985 to gauge the quality of customer service rendered by public sector banks, banks have been advised to take measures to remove the deficiencies which have been noticed and asked to submit quarterly reports indicating the follow-up action taken by them in this regard. All public sector banks have been instructed to pay interest at the rate applicable to balance in savings bank accounts for the delay in collection of outstation cheques/drafts/instruments for any period beyond 14 days from the date of lodgement for collection in the case of those drawn on branches of same bank and beyond 21 days for those drawn on branches of other banks.

Banks have also been instructed to (i) issue demand drafts to all customers without insisting on their being account holders;(ii) ensure that teller counters are kept open throughout the banking hours; (iii) stagger furnishing of statement of accounts to customers; (iv) ensure the implementation of nomination facilities introduced by the Banking Laws (Amendment) Act, 1983 in all their branches.

Further, for a better appreciation of the problems of the customers, Government of India have advised bank officials to meet customers on specified dates during each month. Besides, customer service centres have been/are being opened at all State capitals for redressal of complaints, etc.

All public sector banks have been advised to conduct a sample survey of the extent, efficacy and impact of implementation of the recommendations of the Working Group on customer service accepted by banks for implementation.

Leasing

Consequent on the issue of a notification under Section 6(1)(0) of Banking Regulation Act, 1949 by the Government of India on August 14, 1984, commercial banks are now permitted to undertake the business of equipment leasing as one of the activities apart from those specifically set out in clauses (a) to (n) of sub-section (1) of that Section. Similarly, with the amendment to Section 19(1) of Banking Regulation Act, 1949, a bank can set up a subsidiary unit for undertaking every type of activity which banks themselves can engage in, under Section 6 of that Act.

The banks are now allowed to set up a subsidiary with not less than 51 per cent of shareholding for transacting equipment leasing business, or to invest in shares of a leasing company within the limits specified in Section 19(2) of the above Act.

The subsidiary, however, is prohibited from transacting hire-purchase business and financing of other companies or concerns engaged in equipment leasing business. The Reserve Bank has also stipulated that banks themselves should not a) undertake departmentally the business of equipment leasing and b) act as promoters of companies in which they make portfolio investment. The aggregate investment of a bank in a subsidiary and/or in shares of other leasing companies should not exceed 10 per cent of the paid-up capital and reserves of the bank.

As at the end of June 1986, the Reserve Bank has approved proposals from six banks to make portfolio investment in equipment leasing companies and one proposal to set-up a fully owned subsidiary to undertake merchant banking and equipment leasing.

Department of Financial Companies

Control over non-banking companies

The primary objective of exercising control over deposit acceptance activities of non-banking companies is to restrict the growth of company deposits outside the banking channel as also to afford a degree of indirect protection to the depositors. The acceptance of deposits by financial and miscellaneous non-banking companies is regulated by the Reserve Bank and the control over the deposit acceptance activities of non-financial companies has been vested in the Government of India. Both the Bank's directions and the Companies (Acceptance of Deposits) Rules framed by the Government envisage imposition of certain restrictions on the quantum and tenure of deposits, ceiling on the rates of interest payable on the deposits received and rates of brokerage payable to brokers, maintenance of liquid assets by certain types of companies, submission of returns/balance sheets, etc.

Companies (Acceptance of Deposits) Rules, 1975 — amendment

The Companies (Acceptance of Deposits) Rules, 1975 have been amended in terms of the notification dated January 2, 1986 issued by the Government of India. The amended rules provide that the existing ceiling for acceptance of guaranteed deposits and any other deposits would be merged into a composite ceiling of 35 per cent of the net owned funds in the case of non-financial Government companies only. The rate of brokerage has also been revised enabling non-financial companies to pay brokerage at a rate not more than 1 per cent of the deposits for one year deposits, 1½ per cent for two years' deposits and 2 per cent for deposits above two years.

(a) Chit Funds Act, 1982

The provisions of Chit Funds Act, 1982 have come into force in three more States/Union Territories, bringing the total number of States/Union Territories covered to 11. The draft rules received from the Governments of Maharashtra, U.P., Haryana, Pondicherry, Manipur, Meghalaya, Madhya Pradesh and Delhi have been cleared by the Reserve Bank and further action by them is awaited. The remaining States/Union Territories (excluding Jammu and Kashmir) are yet to finalise the rules and the matter is being pursued actively with the respective authorities.

(b) Prize Chits and Money Circulation Schemes (Banning) Act, 1978

The above Act, which came into force in December 1978 for the purpose of prohibiting promotion/conduct of prize chits, savings/benefit etc.schemes,is being administered by the State Government/Union Territories. Some of the prize chit companies had filed writs in the Calcutta High Court, challenging the applicability of the Act to the schemes conducted by them. The writ filed by Peerless General Finance and Investment Co. Ltd., Calcutta was rejected by the Honourable Judge of the Calcutta High Court, vacating all interim orders. However, the appeal preferred by the company in April 1986, was allowed by a Division Bench of Calcutta High Court. The rule obtained by the company was made absolute, quashing the notice served by the State Governments of West Bengal and Madhya Pradesh for winding up the business. In the light of this development and the fact that certain State Governments are considering action against companies conducting such schemes, arrangements to obtain a final ruling of the Supreme Court on the applicability of the provisions of the above Act to the schemes of Peerless are being considered.

Acceptance of deposits by unincorporated bodies — limitation

The primary responsibility of enforcing the provisions of Chapter IIIC of Reserve Bank of India Act, 1934 effectively lies with the State authorities notwithstanding the fact that concurrent powers have been vested with State Governments and the Reserve Bank. Eight State Governments/Union Territories issued notifications authorising suitable officers to take action as envisaged in Sections 45T and 58E of the Reserve Bank of India Act, 1934.

With a view to creating public awareness, the Bank issued a press release in February 1986, second in the series, highlighting provisions of Section 45(1) and (2) of Chapter IIIC. In Kerala, Karnataka and Tamil Nadu the Bank had initiated appropriate action including conduct of search operations with the assistance of local police at the office premises of a few unincorporated bodies which were suspected to have violated the provisions of Chapter IIIC.

After the provisions of Chapter IIIC came into force in February 1984, several unincorporated bodies filed writ petitions in the High Courts of Delhi, Madras, Hyderabad and Bangalore, challenging the constitutional validity of the provisions of the said Chapter. The Division Bench of Delhi High Court dismissed the petitions in December 1985 and upheld the constitutional validity of Chapter IIIC. Some of the petitioners had gone on appeal to the Supreme Court and the matter is pending. As regards writs pending in other High Courts, arrangements have been made to obtain adjournments on these cases so that they may be disposed off in the light of Supreme Court judgement on the appeals.

Studies on trends in deposits with non-banking companies

During the year ended March 1985, aggregate deposits (both regulated and exempted) with non-banking companies amounted to Rs.16,140.4 crores compared with Rs.11,124.1 crores at end-March 1984. Regulated deposits were of the order of Rs.2,815.3 crores and exempted deposits aggregated Rs.13,325.1 crores. They had registered annual increases of Rs.480.8 crores and Rs.4,535.5 crores, respectively. The number of reporting companies also went up from 6,798 to 7,508 during this period with the corresponding increase in the number of deposit accounts from 88.97 lakhs to 124.14 lakhs. Status-wise classification of 7,508 companies showed that 2,571 were public limited companies with deposits of Rs.14,540 crores and 4,937 were private limited companies with deposits of Rs.1,600.4 crores. Non-financial companies continued to dominate the scene with 2,510 companies accounting for deposits of Rs.11,784.4 crores while 4,998 financial companies held deposits of Rs.4,356.0 crores. Aggregate deposits of Rs.8,923.2 crores were held by 55 Government companies as at end-March 1985 compared with 48 companies with deposits of Rs.5,744.4 crores a year ago.

During the financial year 1984-85, rate of growth of 20.6 per cent in company deposits was a shade higher than 19.5 per cent in the case of bank deposits. The aggregate deposits of Rs.16,140.4 crores with the non-banking corporate sector as on March 31, 1985 constituted 22.2 per cent of total deposits of Rs.72,571 crores with all scheduled commercial banks as on the same date.

RURAL CREDIT

Institutional Finance for Agriculture

The institutional framework for deployment of credit to rural sector in India comprises the Co-operatives, Scheduled Commercial Banks (CBs) and Regional Rural Banks (RRBs). The State Governments also provide 'Taccavi' loans to farmers besides extending financial support to State Co-operative Banks (SCBs) and Land Development Banks (LDBs). In the case of co-operatives, the Primary Agricultural Credit Societies (PACS) provide mainly short and medium-term loans and LDBs long-term loans to agriculture. The commercial banks including RRBs provide both short and term-

loans for agriculture and allied activities. The National Bank for Agriculture and Rural Development (NABARD) is the apex institution at the national level for agricultural credit and provides refinance assistance to these agencies. The Reserve Bank as the Central Bank of the country plays a crucial role in this sphere by giving overall direction to rural credit and provides financial support to the NABARD for its operations.

Complete data on institutional finance made available for agriculture and allied activities for the year 1985-86 are not yet available. Provisional data in respect of loans issued by the co-operatives for the years 1981-82 to 1983-84 and the NABARD's estimates for the years 1984-85 and 1985-86 are available. Data in respect of all scheduled commercial banks are available upto 1984-85. Provisional data (aggregate) in respect of outstanding advances of public sector banks are available upto end-June 1986. Data on scheduled commercial banks' advances to agriculture are on July-June year basis from 1982-83 as against on a financial year (April-March) basis till 1981-82. Tables VII-33 and VII-34 present data on institutional finance to agriculture.

(a) Direct Finance

Direct finance disbursed for agricultural operations by institutional agencies viz., co-operatives, scheduled commercial banks, RRBs and State Governments together aggregated Rs.6,143 crores in 1984-85 as against Rs.5,244 crores during 1983-84, registering an increase of Rs.899 crores or 17.1 per cent over the year. As in the earlier years, co-operatives continued to account for bulk of the credit disbursed during 1984-85 (Rs.3,293 crores or 53.6 per cent) followed by commercial banks — Rs.2,311 crores or 37.6 per cent, RRBs — Rs.297 crores or 4.8 per cent and State Governments — Rs.241 crores or 3.9 per cent. Credit disbursed by co-operatives which stood at Rs.2,938 crores in 1983-84 is estimated to have increased to Rs.3,293 crores in 1984-85 and further to Rs.3,755 crores in 1985-86. Disbursements by scheduled commercial banks went up from Rs.1,225 crores in 1982-83 (July-June) to Rs.1,858 crores in 1983-84 and further to Rs.2,311 crores in 1984-85. Loans issued by RRBs increased from Rs.263 crores in 1983-84 to Rs.297 crores in 1984-85. Loans disbursed by the State Governments during 1984-85 (April-March) stood higher at Rs.241 crores as against Rs.185 crores disbursed during 1983-84. This amount is estimated to have declined to Rs.233 crores during 1985-86. Data on loan disbursements by scheduled commercial banks and RRBs for 1985-86 are not available.

The total outstanding loans (direct finance) of co-operatives, scheduled commercial banks and RRBs which together amounted to Rs.9,680 crores in June 1983, increased to Rs.11,524 crores by June 1984 and further to Rs.13,329 crores by June 1985. The total outstanding loans of co-operatives increased from Rs.5,735 crores at end-June 1984 to Rs.6,294 crores by end-June 1985 and further to Rs.6,896 crores by the end of June 1986. Short-term loans by co-operatives are estimated to have increased from Rs.2,554 crores in 1984 to Rs.2,750 crores in 1985 and further to Rs.2,998 crores in 1986. The medium and long-term loans by PACS and LDBs which stood at Rs.3,180 crores at end-June 1984 are also estimated to have increased to Rs.3,544 crores by end-June 1985 and further to Rs.3,898 crores by end-June 1986. The amount outstanding in respect of direct finance provided by scheduled commercial banks increased from Rs.4,143 crores as at the end of June 1983 to Rs.5,280 crores as at the end of June 1984 and further to Rs.6,342 crores at end-June 1985. As per provisional figures available in respect of public sector banks, the amount reached Rs.8,060 crores at end-June 1986. It may be seen from Table VII-33 that major portion of the outstanding amount i.e. 67.4 per cent in 1983, 69 per cent in 1984 and 70.2 per cent in 1985 was accounted for by term-loans. The amount outstanding in respect of direct finance provided by RRBs also rose from Rs.509 crores at end-June 1984 to Rs.693 crores at end-June 1985.

Table VII-33: Direct institutional finance for agriculture

(Rupees crores)

Source of finance	Loans issued during the year July-June					Loans outstanding as on June 30				
	1981-82	1982-83	1983-84	1984-85	1985-86	1982	1983	1984	1985	1986
I. Co-operatives[1/]	**2479.0**[P]	**2716.9**[P]	**2938.1**[P]	**3293.2**[RE]	**3755.2**[E]	**4821.0**[P]	**5155.0**[P]	**5734.6**[P]	**6294.0**[P]	**6895.9**[E]
of which:										
(a) Short-term loans by PACS	1795.9	1908.1	2157.9	2482.0	2879.1	2148.7	2225.2	2554.3	2750.0	2997.5
	(34.0)	(37.4)	(41.0)	(45.0)	(52.2)	(80.7)[E]	(88.8)	(96.0)	(105.0)	(114.5)
(b) Medium and long-term loans by PACS/LDBs[2/]	683.1	808.8	780.2	811.2	876.1	2672.3	2929.8	3180.3	3544.0	3898.4
	(363.9)	(425.8)	(469.0)	(516.0)	(557.2)	(1854.7)	(2047.4)	(2252.0)	(2474.0)	(2660.0)
II. State Governments[3/]	**153.3**	**187.8**	**185.2**	**241.4**	**232.8**[RE]	—	—	—	—	—
III. Scheduled Commercial Banks (excluding RRBs)[4/]	**1495.6**	**1224.7**	**1858.2**	**2311.2**[P]	—	**3541.1**	**4143.0**	**5279.9**	**6341.8**[P]	**8060.0**[P&/]
of which:										
(a) Short-term loans	623.1	564.8	872.4	998.1	—	1370.0	1350.7	1637.5	1891.4	—
(b) Term loans	872.5	659.9	985.8	1313.1	—	2171.1	2792.3	3642.4	4450.4	—
IV. Regional Rural Banks[5/]	**167.6**	**222.4**	**262.8**	**297.3**	—	**273.1**	**381.9**	**509.4**	**693.4**	—
V. TOTAL DIRECT FINANCE (I TO IV)	**4295.5**	**4351.8**	**5244.3**	**6143.1**	—	**8635.2**	**9679.9**	**11523.9**	**13329.2**	—
of which:										
(a) Short-term loans	2739.9	2883.1	3478.3	4018.8	—	3791.8	3957.8	4701.2	5334.8	—
(b) Medium and long-term loans	1555.6	1468.7	1766.0	2124.3	—	4843.4	5722.1	6822.7	7994.4	—

E = Estimates. RE = Revised Estimates. P = Provisional. — = Not available.

1/ Figures in brackets relate to short-term finance provided by RRBs and other commercial banks through PACS.

2/ Figures in brackets relate to long-term loans by LDBs.

3/ Taken as short-term loans and relate to financial year April-March.

4/ Loans issued during 1981-82 relate to financial year April-March. The outstandings are as on the last Friday of June.

5/ Taken as short-term loans.

6/ Data relate to public sector banks.

Source: *(i) NABARD*

(ii) Reserve Bank of India.

(iii) Annual Budgets of State Governments.

(b) Indirect Finance

Data on annual disbursements of indirect finance to agriculture are available in respect of RRBs and Rural Electrification Corporation (REC). Though such data on disbursements are not available in respect of scheduled commercial banks, data are available in respect of outstanding amounts. The purpose-wise details etc. are given in Statement No.40 of Volume II of the Report. As regards co-operatives, the NABARD has made estimates for the years 1981-82 to 1985-86. These data are presented in Table VII-34. As per the NABARD's estimates, indirect finance to agriculture by co-operatives increased from Rs.2,993 crores in 1984-85 to Rs.3,744 crores in 1985-86, major portion of which (70 per cent) was disbursed by the SCBs. The amount outstanding of the co-operatives is estimated to have increased from Rs.2,195 crores at end-June 1985 to Rs.2,886 crores at end-June 1986. Loans disbursed by RRBs were around Rs.8 to 9 crores per annum. The loans outstanding of RRBs as at the end of June 1985 stood higher at Rs.30 crores as against Rs.27 crores at end-June 1984. The

Table VII-34: Indirect institutional finance for agriculture

(Rupees crores)

Source of finance	Loans issued during the year July-June					Loans outstanding as on June 30				
	1981-82	1982-83	1983-84	1984-85	1985-86	1982	1983	1984	1985	1986
I. Co-operatives 1/	**1497.4 E**	**1955.6 E**	**2400.0 E**	**2993.0 E**	**3744.2 E**	**839.7 E**	**1337.6 E**	**1700.0 E**	**2195.0 E**	**2885.5 E**
of which:										
(a) State Co-operative Banks 2/	862.2	1200.4	1550.0	2015.0	2619.5	555.6	868.9	1000.0	1250.0	1562.5
(b) Central Co-operative Banks 2/	635.2	755.2	850.0	978.0	1124.7	284.1	468.7	700.0	945.0	1323.0
II. Scheduled Commercial Banks (Excluding RRBs) 3/	–	–	–	–	–	**1158.1**	**1310.1**	**1392.3**	**1459.3**	**1255.5P5/**
III. Regional Rural Banks	**9.4**	**8.4**	**9.1**	**8.0**	–	**21.4**	**23.1**	**26.7**	**30.3**	–
IV. Rural Electrification Corporation	**191.6+**	**251.8+**	**303.2**	**327.1**	**354.5**	**1089.4+**	**1292.7+**	**1493.9**	**1674.5**	**1920.6**
TOTAL INDIRECT FINANCE (I TO IV)	–	–	–	–	–	**3108.6**	**3963.5**	**4612.9**	**5359.1**	–

— = Not available E = Estimates P = Provisional + = Financial year (April-March) data

1/ Taken as short-term loans.

2/ Loans issued include food procurement finance but these are not included in loans outstanding which mainly cover direct advances given to non-agricultural credit societies operating at apex, regional or primary level.

3/ The outstandings are as on the last Friday of June; break-up of these data into short and term loans are not available.

4/ Taken as long-term loans.

5/ Data relate to public sector banks.

Source: (i) NABARD.
(ii) Reserve Bank of India.
(iii) Rural Electrification Corporation.

amount outstanding in respect of indirect finance provided by scheduled commercial banks rose from Rs.1,392 crores at end-June 1984 to Rs.1,459 crores at end-June 1985. The loans disbursed by REC rose from Rs.327 crores in 1984-85 to Rs.355 crores in 1985-86. The loans outstanding also increased to Rs.1,921 crores at end-June 1986 from Rs.1,675 crores at end-June 1985. The details of financial assistance provided by the NABARD, co-operatives, commercial banks, RRBs and REC are covered in the following paragraphs.

NABARD AND RURAL CREDIT

Sources And Uses Of Funds

Resources of NABARD

The Capital of the NABARD remained unchanged during the year at Rs.100 crores, subscribed equally by the Government of India and the Reserve Bank of India. The financial resources of the NABARD were augmented during the year by borrowings from the RBI, market borrowings through issue of bonds and contribution from the RBI and the NABARD to National Rural Credit (Long-term Operations) Fund and National Rural Credit (Stabilisation) Fund. The aggregate net resources mobilised by the NABARD during 1985-86 (July-June) amounted to Rs.762 crores as against Rs.541 crores during 1984-85 (July-June).

During the year 1985-86, the Reserve Bank of India contributed Rs.300 crores to NRC (L.T.O.) Fund and Rs.25 crores to the NRC (Stabilisation) Fund (out of its profits for the year 1984-85) as against Rs.275 crores and Rs.80 crores, respectively, in the previous year. The contributions made by the NABARD to the NRC (LTO) Fund and the NRC (Stabilisation) Fund during 1985-86 were Rs.190 crores and Rs.10 crores, respectively. The net borrowings from the RBI during 1985-86 against General Line of Credit sanctioned under Section 17 (4E) of the RBI Act, 1934 for financing NABARD's short-term lending operations amounted to Rs.99 crores (July-June) as against net repayments of Rs.277 crores to the RBI during 1984-85. The interest charged for this accommodation was raised from 4.50 per cent below Bank Rate to 4.25 per cent below Bank Rate from July 1, 1985.

The borrowings from Government of India during the year (July-June) by way of reimbursement against amounts disbursed for various projects supported by external credit agencies amounted to Rs.68 crores as against Rs.284 crores in the earlier year. The repayments during the year were Rs.74 crores as compared to Rs.51 crores in the previous year. As a result, there was a net refund of Rs.6 crores to the Reserve Bank as against the net borrowings of Rs.233 crores in 1984-85.

The NABARD has been associated with implementation of 42 projects with external aid. The total credit to be routed through the NABARD for the projects sanctioned by the World Bank Group and other donor countries/agencies aggregated US $ 2,531 million till June 30, 1986 as against US $ 2,148 million upto June 30, 1985. Out of 42 projects, 39 projects (including the NABARD Credit Project-I) were negotiated under World Bank assisted projects, 2 were assisted by International Fund for Agricultural Developments (IFAD) and 1 by Kreditanstalt Fur Wiederaufbau (KFW) of the Federal Republic of Germany. Of the above 42 projects, 30 including 4 under general lines of credit had been completed by the end of June 1986. The eleven projects now under implementation include 2 multi-State projects and 9 State specific projects. The NABARD Credit Project-I has been successfully negotiated as a general line of credit with World Bank loan of US $ 375 million. This project will be implemented over a period of three years 1986-87 to 1988-89 and covers schematic on-farm investments, a pilot project for strengthening the credit delivery system, training of personnel, Agricultural Credit Review, etc.

Uses of Funds by NABARD

During 1985-86, the net utilisation of funds by the NABARD for loans and advances

amounted to Rs.723 crores as against that of Rs.481 crores during 1984-85 which shows a significant rise of 50.3 per cent over the year. The total loans outstanding went up from Rs.4,481 crores as at the end of June 1985 to Rs.5,204 crores at end-June 1986, showing a net rise of 16.1 per cent. The loans outstanding to SCBs and RRBs (production and marketing credit) which had shown a sharp decline of Rs.192 crores during 1984-85 increased by Rs.133 crores (17.4 per cent) to Rs.898 crores at end-June 1986. The medium-term loans (conversion) increased from Rs.120 crores at end-June 1985 to Rs.142 crores at end-June 1986. The NABARD's medium-term loans for approved agricultural purposes (non-project loans) at Rs.168 crores showed a small rise of Rs.10 crores during 1985-86 as against the sharp rise of Rs.126 crores during 1984-85. The non-project long-term loans outstanding (loans to State Governments for contribution to the share capital of the co-operative credit institutions) declined by Rs.9 crores to Rs.96 crores at end-June 1986 as compared to a decline of Rs.11 crores during 1984-85. The outstandings under schematic lending (refinance loans and purchase of debentures) increased from Rs.3,333 crores at end-June 1985 to Rs.3,900 crores at end-June 1986 — a net rise of Rs.567 crores or 17 per cent over the year (Table VII-35).

Credit Policy

Deposit and Lending Rates

Deposit Rates

The rates of interest on domestic deposits in respect of SCBs, CCBs and PCBs remained unaltered during the year. The rate of interest effective from May 27, 1985 are as follows:

(Per cent per annum)

Term Deposits	Rate of Interest
a) 15 days to 45 days	3.0
b) 46 days to 90 days	4.0
c) 91 days to less than 6 months	6.5
d) 6 months & above but less than 1 year	8.0
e) 1 year & above but less than 2 years	8.5
f) 2 years & above but less than 3 years	9.0
g) 3 years & above but less than 5 years	10.0
h) 5 years & above	11.0

The SCBs/CCBs and PCBs are allowed, at their discretion, to pay additional interest rate upto ¼, ½ and 1 per cent per annum, respectively, over and above the rates specified for domestic deposits. The interest rates in respect of deposits accepted under Foreign Currency Non-Resident (FCNR) scheme were, however, revised twice during the year as indicated below:

(Per cent per annum)

Term Deposits	With effect from		
	22.8.1985	10.2.1986	5.5.1986
A. Deposits for 1 year and above but less than 2 years	9.50	9.50	8.50
B. Deposits for 2 years & above but less than 3 years	10.50	10.00	9.00
C. Deposits for 3 years & above but less than 5 years	11.00	10.50	10.00*
D. Deposits for 5 years only	12.00	11.00	–

* For deposits for 3 years only.

Table VII-35: Resources and their utilisation by NABARD

(Rupees crores)

Resources and Utilisation	Position as on June 30, 1984	Net accretion/ utilisation during 1984-85	Position as on June 30, 1985	Net accretion/ utilisation during 1985-86	Position as on June 30, 1986
1	2	3	4	5	6
Sources of Funds					
(1) Capital	100	—	100	—	100
(2) Reserves & Surplus	157	30	187	41	228
(3) NRC (LTO) Fund	1577	415	1992	490	2482
(4) NRC (Stabilisation) Fund	533	95	628	35	663
(5) Deposits	14	10	24	46	70
(6) Bonds & Debentures	436	17	453	25	478
(7) Borrowings from GOI	1383	233	1616	− 6	1610
(8) Borrowings from RBI	1039	−277	762	99	861
(9) Other Liabilities	54	18	72	32	104
Total (1 to 9)	**5293**	**541**	**5834**	**762**	**6596**
Uses of Funds					
(1) Loans and Advances	4000	481	4481	723	5204
(a) Production & Marketing Credit	957	− 192	765	133	898
(b) Conversion Loans for Production Credit	120	—	120	22	142
(c) Medium-term Investment Credit (Non-Project Loans)	32	126	158	10	168
(d) Other Investment Credit					
(i) Medium-term & Long-term Project Loans	2775	558	3333	567	3900
(ii) Long-term Non-Project Loans	116	− 11	105	− 9	96
(2) Investment in GOI Securities	570	127	697	138	835
(3) Special Deposit with RBI in respect of NRC (LTO) Fund & NRC (Stabilisation) Fund	531	− 132	399	− 132	267
(4) Fixed Assets	15	3	18	9	27
(5) Other Assets	152	56	208	38	246
(6) Cash & Bank Balances	25	6	31	− 14	17
Total (1 to 6)	**5293**	**541**	**5834**	**762**	**6596**

Source: NABARD.

Effective May 5, 1986, banks are prohibited either to accept or renew deposits under the FCNR Accounts scheme for a period exceeding 3 years. The SCBs/CCBs and PCBs are not allowed, as in the past, to pay at their discretion, additional interest of ¼, ½ and 1 per cent, respectively, which they are allowed to pay on domestic deposits.

Lending Rates

The structure of interest rates on advances remained unchanged during the year except in respect of pre-shipment advances by PCBs. The maximum rate of interest charged by SCBs/CCBs/RRBs and PCBs continued to be 17.5 per cent since April 1, 1985. With effect from March 1, 1986, the rates of interest to be charged by PCBs on pre-shipment credit for all commodities have been fixed as under:–

Period	Per cent per annum
a) Upto 180 days	12.00
b) Beyond 180 days and upto 270 days	14.00
c) Beyond 270 days	Not exceeding 16.5

Other Credit Policy Measures

Advances to Individuals by Central Co-operative Banks against Gold-Silver Ornaments (Jewel Loans)

The NABARD reviewed the limits for issue of jewel loans by CCBs. It was decided that if a CCB is in a position to meet in full the credit requirements of its affiliated PACS, it may issue loans to individuals directly against the security of gold/silver ornaments for amounts not exceeding Rs.5,000 as against the previous limit of Rs.3,000 per borrower subject to the condition that the aggregate loans and advances of all types issued by it directly to individuals and for all purposes including jewel loans and outstanding against them (excluding loans against fixed deposits) should not, on any day, exceed 10 per cent of its total time and demand liabilities on the last Friday of the previous month.

Centrally Sponsored Scheme of Special Rice Production Programme

The Government of India has sponsored a scheme called 'Special Rice Production Programme' for increasing rice production in the States of Assam, Bihar, Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal covering 409 blocks. The Ministry of Agriculture had urged the NABARD to ensure that adequate credit support for implementation of the programme in the selected blocks was available. Accordingly, the NABARD has taken necessary follow-up action particularly to monitor information regarding: (a) acreage covered under the programme in each district; (b) the amount of incremental credit given for raising paddy during the season; (c) number of new members/borrowers, particularly of small farmers, SC and ST enrolled by primary societies; (d) revision of scale of finance to provide adequate credit for adoption of the new technology; (e) participation of commercial banks and RRBs in the programme; and (f) overdues, if any, at the PACS level affecting the flow of credit.

Implementation of National Oilseeds Development Project

The Centrally Sponsored National Oilseeds Development Project (NODP) was formulated to supplement the efforts of the State Governments in increasing the production of major oilseeds during the Seventh Plan period. The NABARD is monitoring the schemes in liaison with the banks and the State Governments so as to ensure prompt and co-ordinated action for effective implementation of the project. The NABARD has also decided to sanction separate short-term (agricultural) credit limits to SCBs on behalf of CCBs during 1986-87 for financing NODP.

NABARD's Assistance for Agriculture

The NABARD provides refinance assistance to the eligible co-operative and commercial banks for different purposes and durations. Short-term credit is provided for periods not

exceeding 18 months to SCBs/RRBs for seasonal agricultural operations (crop loans), marketing of crops, purchase and distribution of fertilisers and working capital requirements of co-operative sugar factories. Medium-term credit (18 months to 7 years) provided to SCBs/RRBs is for approved agricultural purposes, purchases of shares of processing societies and conversion of short-term crop loans into medium-term loans in areas affected by natural calamities.

The NABARD also provides, under schematic lending, credit for a period of 25 years to SCBs, LDBs, RRBs and CBs for investment in agriculture. Long-term assistance is provided in the form of loans to State Governments (not exceeding 20 years) for contribution to share capital of co-operative credit institutions. The details of financial accommodation provided by the NABARD to co-operatives and State Governments as well as the rates of interest are presented in Table VII-36. The credit facilities are reviewed in the following paragraphs.

Credit Limits

(i) Short-term

During 1985-86 (July-June), short-term credit limits aggregating Rs.1,309 crores were sanctioned by the NABARD for financing seasonal agricultural operations as against Rs.1,233 crores for the year 1984-85 (July-June). The drawals against these limits during 1985-86 were Rs.1,698 crores as compared to Rs.1,578 crores in 1984-85. Total repayment during 1985-86 was Rs.1,594 crores as compared to Rs.1,716 crores in 1984-85. The outstandings against the limits stood at Rs.550 crores as on June 30, 1986 as compared with Rs.446 crores as on June 30, 1985. The NABARD continued to sanction separate credit limits for financing *kharif* and *rabi* crops to the States where *rabi* crops are predominant.

Short-term credit limits sanctioned for purposes other than seasonal agricultural operations aggregated Rs.363 crores during 1985-86 as compared with Rs.298 crores during 1984-85. Important among them was the credit limit sanctioned for production and marketing activities of handloom weavers' societies which rose from Rs.224 crores during 1984-85 (April-March) to Rs.244 crores during 1985-86 (April-March).

During 1985-86 (July-June), short-term and composite credit limits aggregating Rs.228 crores were sanctioned to 133 RRBs as compared with the limits of Rs.203 crores sanctioned to 126 RRBs during 1984-85 (July-June). Outstandings under these limits upto end-June 1986 amounted to Rs.213 crores as compared with Rs. 183 crores as at the end of June 1985.

(ii) Medium-term

During the calendar year 1985, credit limits for medium-term agricultural purposes sanctioned to SCBs and drawals by them amounted to Rs.24 crores and Rs.13 crores, respectively, as compared with Rs.25 crores and Rs.17 crores,respectively, in the preceding year. The amount outstanding at end-December 1985 was Rs.35 crores as compared to Rs.38 crores a year ago. It may be mentioned here that the limits sanctioned for this purpose in recent years are lower than the limits sanctioned in the earlier years, as the banks are now expected to prepare schemes and avail of separate line of credit under schematic lending in the case of investment programmes where larger outlay and longer repayment periods are involved and also because of the availability of separate refinance facility for purposes like purchase of drought/work animals and animal driven carts, sheep breeding, development of piggery, minor irrigation, installation of gobar gas plants, etc. under IRDP.

Conversion Loans

During 1985-86, the NABARD sanctioned an aggregate credit limit of Rs.117 crores as compared with Rs.124 crores during 1984-85 from the NRC (Stabilisation) Fund to enable SCBs/CCBs to convert short-term agricultural loans (including rephasement and rescheduling of loans) granted to farmers into medium-term loans in the event of widespread crop failure as a result of drought, floods or other

Table VII-36: NABARD Credit to Co-operatives and State Governments during 1984-85 and 1985-86

(Rupees crores)

Section of the NABARD Act, 1981	Term-wise/Purpose-wise Finance	Period for which limits are sanctioned	1984-85				1985-86 (Provisional)			
			Limits sanctioned	Drawals	Repay-ments	Outstand-ings	Limits sanctioned	Drawals	Repay-ments	Outstand-ings
1	2	3	4	5	6	7	8	9	10	11
	I. Short-term	**Total**	**1,531**	**2,013**	**2,125**	**634**	**1,672**	**2,219**	**2,107**	**746**
21 (1)(i)/2(i) 21 (1)(i)/3(a) 21 (1)(i)/3(b)	(i) Seasonal agricultural operations (at 3% below Bank Rate from March 1978)	July-June	1,233	1,578	1,716	446	1,309	1,698	1,594	550
	(ii) Marketing of crops other than cotton & kapas (at Bank Rate from June 1978)	July-June	27	32	32	—	40	67	67	—
21 (1)(i)/3(b)	(iii) Marketing of cotton & kapas including monopoly procure-ment of cotton (at Bank Rate from June 1978)									
21 (1)(ii)/3(b)	(iv) Purchase & distribu-tion of fertilisers (at 1% above Bank Rate from June 1978)	January-December	20	17	6	16	29	48	40	24
21 (1)(v)/3(a)	(v) Production & market-ing of handloom products (at 2½% below Bank Rate from March 1978)	April-March	224	376	357	164	244	362	367	159
21 (1)(v)/3(a)	(vi) Financing of other cottage and small-scale industries (at 2½% below Bank Rate from March 1978)£	April-March	8	5	5	5	7	5	5	5
21 (1)(iv)/21(4)	(vii) Purchase & sale of yarn (at Bank Rate)	April-March	9	5	5	2	11	33	29	6

(Contd.)

Table VII-36: NABARD Credit to Co-operatives and State Governments during 1984-85 and 1985-86 *(Concld.)*

1	2	3	4	5	6	7	8	9	10	11
21 (1)(iii)/21(3)(A)&3(b)	(viii) Against pledge of sugar (at 5% above Bank Rate)	July-June	10	—	—	—	30	5	5	—
21 (1)(iii)/21(2)(i)	(ix) Against pledge of securities earmarked under Agricultural credit Stabilisation Fund for meeting SCB share in M.T. conversion loans (Bank Rate)	July-June	—	—	4	1	2	1	—	2
21 (1)(iii)/21(3)(a)	(x) Collection & marketing of minor forest produce (Bank Rate)	July-June	—	—	—	—	—	—	—	—
	II. Medium-Term	**Total**	**150**	**90**	**89**	**158**	**142**	**102**	**83**	**177**
24	(i) Agricultural purposes (at 3% below Bank Rate from January 1, 1979)	January-December	25	17	16	38	24	13	16	35
	(ii) Share capital contribution in co-operative processing societies	January-December	1	—	—	—	1	1	1	—
22	(iii) Conversion of short-term loans into medium-term loans in scarcity affected areas including rephasement and reschedulement (at 3% below Bank Rate from January 1979)	July-June	124	73	73	120	117	88	66	142
	III. Long-term	**Total**	**7**	**9**	**14**	**110**	**6**	**7**	**15**	**101**
27	Loans to State Governments for contribution to share capital of co-operative credit institutions (at 6% P.A.)	April-March	7	9	14	110	6	7	15	101
	Total Credit		**1,688**	**2,112**	**2,228**	**902**	**1,820**	**2,328**	**2,205**	**1,024**

— Nil or Negligible.

£ Includes financing of individual rural artisans through PACS.

Source: NABARD.

natural calamities. The drawals against these limits during 1985-86 amounted to Rs.88 crores as compared with Rs.73 crores during 1984-85, while the amount outstanding at the end of June 1986 stood at Rs.142 crores as compared with Rs.120 crores at the end of June 1985.

(ii) Long-term Credit

During the financial year 1985-86, long-term credit limits amounting to Rs.6 crores were sanctioned to State Governments for contribution to the share capital of co-operative credit institutions as against Rs.7 crores sanctioned during 1984-85. The drawals during 1985-86 were Rs.7 crores as compared to about Rs.9 crores in 1984-85. The amount outstanding against these loans declined to Rs. 101 crores by the end of March 1986 from Rs.110 crores a year ago.

Important Policy Changes

Short-term Credit

a) Seasonal Agricultural Operations (SAO)

The NABARD's policy in regard to sanctioning of short-term credit limits to SCBs on behalf of CCBs for financing SAO remained broadly unchanged. The changes introduced during the year were as under:

Following the recommendations of the 'Study Group on Norms for Involvement of Resources by State and Central Co-operative Banks in Agricultural Lending' (Bhave Group — 1983), the concept of minimum involvement of internal lendable resources (ILR) has been introduced. As per the norms prescribed, the SCBs and CCBs are required to involve a minimum of 25 per cent and 40 per cent, respectively, of their ILR in agricultural lendings. Wherever a bank is found to be not in a position to involve its ILR in short-term agricultural lending upto the prescribed level during 1985-86, the NABARD would consider fixing a suitable lower level in individual cases which would be raised by 5 percentage points in each of the subsequent years so that all banks will be in a position to conform to the prescribed norms over a period of 3 to 5 years. The SCBs in Union Territories and in States having a two-tier co-operative credit structure are, however, exempted from the purview of the above norms.

The NABARD continued to sanction short-term credit limits for financing SAO at 3 per cent below the Bank rate. Borrowings from the NABARD in excess of the aggregate level fixed for each CCB and SCB functioning as Central Financing Agency (CFA) under the scheme of linking borrowings from the NABARD with efforts at deposit mobilisation by CCBs were charged additional rate of interest at 1.5 per cent per annum. Further, it was also decided to introduce from the year 1985-86, the following modifications in the scheme:

'Aggregate level' would now represent borrowings over and above the base-level, as redefined, either —

(a) upto twice the

(i) increase in a bank's average involvement out of its own resources in short-term agricultural loans during a calendar year over and above the preceding calendar year, plus

(ii) an amount equal to the own involvement in medium-term conversion loans in a co-operative year in excess of the stipulated level of 15 per cent

or

(b) to the full extent of increase in loans granted by it to societies for small and marginal farmers during a financial year over the immediate preceding financial year, whichever is higher.

Base level under the revised scheme is a moving factor and will be the highest average borrowings for SAO from the NABARD during 3 co-operative years, immediately preceding the year for which aggregate level is to be worked out.

Further, the scheme was made applicable to all CCBs and SCBs functioning as Central Financing Agencies.

b) Marketing of Crops

For availing marketing refinance from the NABARD, it had been stipulated that drawals on the marketing credit limits should not exceed the amount of production dues recovered by marketing societies out of produce (pledge) loans/sale proceeds of crops and remitted to PACS towards repayment of their production and other dues. With a view to enabling borrowing members of PACS to market their produce on better terms, it has been decided to extend refinance facilities for marketing of crops, upto twice the crop loan availed of by the borrowing members of PACS, provided the outstanding production and other dues to PACS are recovered out of the produce (pledge) loans and/or sale proceeds of crops and remitted to PACS.

c) Distribution of Fertilisers

Credit requirements for fertiliser procurement, stocking and wholesale distribution continued to be met on a consortium basis involving the commercial banks, SBI Group and the SCBs. Refinance facility in the form of short-term credit limits to SCBs for financing the retail distribution of fertiliser on cash and carry basis continued to be made available by the NABARD only to the extent of the gap which the commercial banks were unable to meet. However, the margin requirements in respect of credit facilities provided for purchase and distribution of chemical fertilisers to the primary societies by SCBs/CCBs have been reduced, even without a Government guarantee, to 10 per cent for pledge and 15 per cent for hypothecation loans, from the usual margin of 25 and 40 per cent, respectively.

II. Medium-term Credit

(i) Loans for Approved Agricultural Investment Purposes

During the calendar year 1985, the NABARD continued to follow its existing policy governing the sanction of medium-term limits to SCBs on behalf of CCBs for financing approved agricultural investment purposes. The stipulation that at least 50 per cent of medium-term loans issued by the CCBs in a calendar year should be for the benefit of small and marginal farmers continued. The NABARD also advised the SCBs that wherever large outlays and longer repayments were involved in financing any purpose, they should invariably prepare schemes and approach for sanction of such schemes under schematic lending.

ii) Conversion Loans/Stabilisation Arrangements

The NABARD continued to sanction medium-term loans out of NRC (Stabilisation) Fund to SCBs on behalf of CCBs for conversion of short-term agricultural loans in respect of crops affected by natural calamities.

III. Long-term Credit

Long-term Loans to State Governments for Share Capital Contribution.

The NABARD continued its existing policy for the financial year 1985-86 to sanction loans from the NRC (LTO) fund to State Governments for contribution to the share capital of various co-operative credit institutions viz., SCBs, CCBs, PACS, FSS, LAMPS, State and Primary Land Development Banks and Primary (Urban) Co-operative Banks.

Lending Programme and Resources of SLDBs

With a view to supplementing their resources, the NABARD finalises the ordinary debentures programme of the SLDBs. These ordinary debentures issued by SLDBs for raising the resources are treated as trustee securities and are fully guaranteed by the concerned State Governments — both in regard to repayment of principal and payment of interest and are approved securities under the Reserve Bank of India Act, 1934.

The total lending programme of SLDBs for the financial year 1985-86 was fixed at Rs.566 crores, as compared to Rs.550 crores in 1984-85. The SLDBs raised the resources for the programme largely by issue of Special Development Debentures (Rs.470.60 crores) subscribed by the NABARD, Government of India

and State Governments, issue of ordinary debentures by LDBs (Rs.95 crores) and internal resources of LDBs (Rs.0.40 crores); the corresponding figures for the year 1984-85 were Rs.451 crores, Rs.97 crores and Rs.2 crores, respectively. The actual amount raised by SLDBs, through flotation of ordinary debentures during 1985-86 amounted to Rs.89.45 crores which fell short of the target of Rs.95.00 crores by Rs.5.55 crores. This was mainly due to restricted eligibility of PLDBs on account of heavy overdues. The lending programme of SLDBs for the financial year 1986-87 is tentatively fixed at Rs.593 crores, resources for which would be mobilised through flotation of special debentures of Rs.500 crores, ordinary debentures of Rs.92 crores and generation of internal resources of Rs.1 crore. The support availed of from the institutional investors under the ordinary debentures programme for the year 1984-85 and 1985-86 together with targets for the year 1986-87 is indicated in Table VII-37.

Table VII-37: Resources of Land Development Banks

(Rupees crores)

Item	1984-85 (Achievements)	1985-86	1986-87 (Target)
1	2	3	4
Lending Programme/ Resources	550	566	593
a) Special Development Debentures	451	471	500
b) Ordinary Debentures	97	95	92
i) Out of (b) actual flotations	92	89	-
ii) Institutional Contributions:			
Central & State Governments	8	10	—
L.I.C.	35	35	-
S.B.I. Group	15	15	
Commercial Banks	10	10	
Mutual Support and Self Help	24	19	-
c) Internal Resources	2	0.4	1

Source: NABARD.

Revised Eligibility Criteria for Issue of Loans by SLDBs

In pursuance of the agreement with World Bank under the NABARD Credit Project-I, the eligibility criteria for PLDBs/branches of SLDBs for lending were revised with effect from July 1, 1986. As per the revised criteria, the financing bank must have a recovery of not less than 75 per cent of demand as on June 30 of the preceding co-operative year for unrestricted lending eligibility. For recoveries below this percentage, eligibility will be progressively scaled down keeping in view the extent of recovery and levels of lending in the past. More liberal eligibility norms will apply to LDBs located in the North-Eastern region. However, certain relaxations available earlier as for instance the facility for notional reduction of overdues by injection of Government Share Capital upto 10 per cent of the demand have been withdrawn. The powers for sanctioning additional eligibility to PLDBs/branches of SLDBs having unrestricted eligibility in order to meet their committed expenditure have been delegated to the concerned regional offices of the NABARD.

NABARD's Long-term Refinance Assistance under Various Schemes

During the year 1985-86, the NABARD sanctioned 7,964 schemes involving refinance commitments of Rs.1,464 crores, as against 5,601 schemes with refinance commitments of Rs.1,233 crores during 1984-85. Disbursements during the year amounted to Rs.1,192 crores as against Rs.1,061 crores during 1984-85. As at the end of June 1986, the cumulative number of schemes sanctioned by the NABARD stood at 42,557, the cumulative commitments at Rs.9,335 crores and the cumulative disbursements at Rs.6,619 crores (Table VII-38).

Minor irrigation continued to occupy top position, as in the earlier years, as the single largest item of investment both in regard to schemes sanctioned and commitments made. During 1985-86, the NABARD sanctioned 2,589 schemes for minor irrigation involving

Table VII-38: Purpose-wise Sanctions and Disbursements of Refinance Assistance by NABARD during 1984-85 and 1985-86 (July-June)

(Rupees crores)

Purpose	1984-85			1985-86			Cumulative Position as on June 30, 1986‡		
	No. of Schemes sanctioned	Commit-ments	Disburse-ments	No. of Schemes sanctioned	Commit-ments	Disburse-ments	No. of Schemes sanctioned	Commit-ments	Disburse-ments*
	1	2	3	4	5	6	7	8	9
Minor Irrigation	1,813	444	335	2,589	517	385	15,928	4,208	2,924
Land Development/CAD	504	23	43	148	29	27	1,611	344	209
Farm Mechanisation	958	169	170	1,325	205	200	7,384	1,369	1,237
Plantation/Horticulture	576	85	47	698	99	63	4,222	662	294
Poultry/Sheep breeding/Piggery	449	36	23	631	46	26	2,963	187	118
Fisheries	175	17	10	191	22	13	1,661	178	86
Dairy Development	380	39	23	558	57	29	3,182	251	141
Storage/Market Yards	149	17	12	237	31	19	1,706	230	184
Others	597	403	398	1,587	458	430	3,900	1,906	1,426
Total	**5,601**	**1,233**	**1,061**	**7,964**	**1,464**	**1,192**	**42,557**	**9,335**	**6,619**

* Excludes short-term finance.

‡ Cumulative position includes adjustments.

Source: NABARD.

commitments of Rs.517 crores and 5,375 schemes for diversified purposes (i.e. other than minor irrigation) involving commitments of Rs.947 crores. The details of schemes sanctioned, commitments and disbursements of loans are set out in Table VII-38.

Agency-wise, commercial banks (including RRBs), continued to top the list. The share of commercial banks (including RRBs), SLDBs and SCBs in total NABARD disbursements stood at Rs.819 crores (69 per cent), Rs.337 crores (28 per cent) and Rs.36 crores (3 per cent) respectively, during 1985-86. During 1984-85, their respective shares were Rs.710 crores (67 per cent), Rs.314 crores (30 per cent) and Rs.37 crores (3 per cent) (Table VII-39).

Region-wise, while the shares of the Southern, Western and North-Eastern regions in total disbursements increased from 27 per cent, 14 per cent and 1 per cent, in 1984-85 to 29 per cent, 15 per cent and 2 per cent, respectively, during 1985-86, the shares of the Northern and Central regions declined from their respective shares of 23 per cent each to 21 per cent each during the period. The Eastern region maintained its share of 12 per cent (Table VII-40).

The NABARD continued to pursue vigorously the policy of development and promotion of agricultural investments in the less developed and/or underbanked States. During the year 1985-86, the disbursements in these States amounted to Rs.502 crores and formed 42.1 per cent of the total disbursements at all-India level as against Rs.445 crores (41.9 per cent) in 1984-85 (Table VII-41). Cumulatively, total disbursements in these States amounted to Rs.2,710 crores upto the end of June 1986.

Refinance under Integrated Rural Development Programme (IRDP)

The NABARD's refinance assistance under IRDP amounted to Rs.376 crores during the year 1985-86 as against Rs.354 crores in 1984-85. In total disbursements under the programme, commercial banks accounted for the largest share during the year (57 per cent) followed by RRBs (36 per cent), SCBs (5 per cent) and SLDBs (2 per cent). The Industry, Service and Business (ISB) component of the IRDP accounted for Rs.141 crores (37.5 per cent) of the total disbursements during 1985-86 (July-June) as against Rs.107 crores (30.3 per cent) during 1984-85 (July-June) (Table VII-42).

Refinance Facilities: Policy Changes

Financial Assistance for Purchase of Stand-by Pumpsets

The NABARD has decided to provide refinance assistance to Minor Irrigation Development Corporation (MIDCs) for purchase of stand-by pumpsets to the extent of 10 per cent of the total number of tubewells in a scheme sanctioned by the NABARD to them.

Refinance for Farm Mechanisation

The NABARD introduced the following changes in its policy governing provision of refinance support for financing farm mechanisation programme during the year 1985-86; (i) the extent of refinance to commercial banks and SLDBs for this programme was enhanced to 90 per cent and 95 per cent, respectively, in Eastern Uttar Pradesh bringing it on par with Eastern and North-Eastern States and Madhya Pradesh; (ii) for acquisition of a tractor for the second time through bank loan, the minimum down payment to be contributed by a beneficiary was raised from 15 per cent to 20 per cent of the investment cost on July 1, 1985. From July 1, 1986 this was enhanced further to 30 per cent of the investment cost; and (iii) No refinance would be made available in respect of advances for purchase of harvestor combines.

Subsequently, after a high level mid-term review of flow of credit to farm mechanisation, the following liberalisations were effected; (i) The condition of minimum holding of 10 acres of perennially irrigated land or its equivalent for other categories of land stipulated for each beneficiary/group of beneficiaries of a

Table VII-39: Agency-wise Sanctions and Disbursements of Refinance Assistance by NABARD during 1984-85 and 1985-86 (July-June)

(Rupees crores)

Agency	Number of Schemes*		Financial Assistance		NABARD's Commitments		Disbursements by NABARD		Cumulative Position as on June 30, 1986£			
	1984-85	1985-86	1984-85	1985-86	1984-85	1985-86	1984-85	1985-86	No. of Schemes	Financial Assistance by agencies	NABARD's Commitments	Disbursements by NABARD‡
	1	2	3	4	5	6	7	8	9	10	11	12
1. State Land Development Banks	1,618	2,000	427	543	391	495	314	337	12,006	4,113	3,653	2,588
2. Scheduled Commercial Banks (including RRBs)	3,854	5,763	1,078	1,220	796	926	710	819	29,686	6,973	5,388	3,835
3. State Co-operative Banks	129	201	54	51	46	43	37	36	865	337	294	196
Total	**5,601**	**7,964**	**1,559**	**1,814**	**1,233**	**1,464**	**1,061**	**1,192**	**42,557**	**11,423**	**9,335**	**6,619**

‡: Excludes short-term finance.
*: Excludes IRDP Plans.
£: Cumulative position includes adjustments.
Source: NABARD.

Table VII-40: Region-wise Disbursements of Refinance Assistance by NABARD (July-June)

(Rupees crores)

Region *	1983-84	1984-85	1985-86
1	2	3	4
Northern	242	241	250
	(27.1)	(22.7)	(21.0)
North-Eastern	9	14	22
	(1.0)	(1.3)	(1.8)
Eastern	96	126	148
	(10.8)	(11.9)	(12.4)
Central	190	238	256
	(21.3)	(22.5)	(21.5)
Western	128	153	175
	(14.3)	(14.4)	(14.7)
Southern	227	289	341
	(25.5)	(27.2)	(28.6)
Total	**892**	**1,061**	**1,192**
	(100.0)	**(100.0)**	**(100.0)**

* **Northern Region:** Chandigarh, Delhi, Haryana, Himachal Pradesh, Jammu & Kashmir, Punjab & Rajasthan;
North-Eastern Region: Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura and Arunachal Pradesh;
Eastern Region: Sikkim, Bihar, Orissa, West Bengal and Andaman & Nicobar Islands;
Central Region: Madhya Pradesh and Uttar Pradesh;
Western Region: Goa, Daman & Diu, Dadra & Nagar Haveli, Gujarat and Maharashtra;
Southern Region: Andhra Pradesh, Karnataka, Kerala, Pondicherry & Tamil Nadu.

Note: Figures in brackets are percentages to total.
Source: NABARD.

Table VII-41: Disbursements of Refinance Assistance by NABARD to less developed and/or under-banked States during 1984-85 and 1985-86 (July-June)
(Schematic Lending)

(Rupees lakhs)

State/Union Territory	1984-85	1985-86
1	2	3
1. Uttar Pradesh	162,17	168,65
2. Madhya Pradesh	75,77	87,55
3. Bihar	66,56	74,05
4. Rajasthan	54,60	64,22
5. Orissa	34,51	34,04
6. Jammu & Kashmir	8,98	7,24
7. West Bengal	24,39	39,91
8. Assam & other North-Eastern States	13,80	22,26
9. Himachal Pradesh	4,00	3,38
10. Andaman & Nicobar Islands	12	21
11. Sikkim	2	4
Disbursements (1 to 11)	**444,92**	**501,55**
	(41.9)	**(42.1)**
Total Disbursements (ALL-INDIA)	**1,060,87**	**1,191,65**

Note: Figures in brackets indicate percentage disbursements to total disbursements.
Source: NABARD.

Table VII-42: NABARD's Refinance Assistance for IRDP
(July-June)

(Rupees crores)

Type of Agency	Disbursements during 1983-84	Disbursements during 1984-85	Disbursements during 1985-86	Disbursements upto end-June 1986
1	2	3	4	5
SLDBs	14	13	9	58
	(—)	(—)	(—)	(—)
Commercial Banks (excluding RRBs)	112	191	214	674
	(21)	(50)	(71)	(146)
RRBs	77	122	135	412
	(29)	(53)	(67)	(159)
SCBs	30	28	18	118
	(2)	(4)	(3)	(10)
Total	**223**	**354**	**376**	**1,262**
	(52)	**(107)**	**(141)**	**(315)**

Note: Figures in brackets indicate disbursements for ISB component.
Source: NABARD.

tractor loan was relaxed to 8 acres of perennially irrigated land or equivalent; (ii) The condition that at least 50 per cent of the total amount required for repayment of the loan instalment together with interest should come from the incremental income derived out of the mechanisation of the beneficiary's own farm was reduced to 40 per cent in the case of Eastern States; (iii) The maximum repayment period of loan for tractors was enhanced to 9 years from 7 years: and (iv) The minimum period of 7 years stipulated for acquisition of a tractor for the second time through bank loan was reduced to 3 years.

Refinance for Wasteland Development

For promoting wasteland development, the NABARD has decided to provide 100 per cent refinance in respect of loans provided to the farmers by eligible institutions for raising pilot nurseries. The NABARD has also prepared detailed guidelines for preparation of pilot projects for development of wastelands in selected States, especially in the tribal areas.

Refinance Assistance for Forestry Development Programme

The NABARD has liberalised its policy to extend refinance support to all bankable forestry development programmes so that credit is made available through the banking channel to the Joint Sector Undertakings or Joint Stock or Private Companies for raising plantations. Under this scheme, only those projects which aim at increasing forest cover on marginal, degraded or wastelands raising fuel, fodder and raw materials needed for industries, without affecting the ecological balance and the land use pattern will be supported. Refinance assistance will be provided upto 90 per cent of loans advanced by the banks for the programme on merits of each case.

Refinance Assistance to LDBs for Financing Rural Artisans through PACS

The NABARD has extended its refinance assistance to LDBs for financing composite loan requirements of the individual rural artisan members of the PACS which have been identified for functional coordination. The

rural artisan members who are engaged or who propose to undertake any of the activities covered by the 22 broad groups of cottage and small-scale industries including agro-processing activities such as mini oil expelling units and jaggery units, etc. are eligible for assistance. The assistance is provided in the form of composite loans upto Rs.30,000/- per individual for investment in machinery, tools and equipments, construction of workshed and also working capital requirements for one operating cycle. The refinance assistance will be provided by the NABARD to these LDBs upto 90 per cent of their advances at 6.5 per cent interest per annum with the stipulation that the ultimate beneficiary is to be charged an interest of 10 per cent per annum.

Strengthening and Future Development of Co-operative Structure

Reorganisation of PACS and Future Development of Reorganised PACS

The progress of reorganisation of PACS into multi-purpose units is somewhat tardy. The total number of PACS though expected to come down to 90,000 by 1980-81, in fact stood at 91,749 at the end of June 1985. The progress made in this regard since 1981 is set out below:

Year (End-June)	No.of PACS	Membership (In '000s)
1981	94,866	57,511
1982	94,270	60,999
1983	94,089	63,312
1984	92,496	66,669
1985	91,749	69,182

The programme of intensive development of PACS for transforming them into efficient multi-purpose units continued to be monitored by the NABARD. Under the programme, 4,595 societies in 16 States/Union Territories were selected. Data collected on a pilot basis from Haryana, Karnataka, Kerala and Madhya Pradesh indicated that the selected PACS in these States recorded considerable progress in mobilisation of deposits and in credit and non-credit activities over the past two years as a result of the programme of intensive development of PACS.

With a view to giving a new thrust and direction of development of PACS and LAMPS, a 15-Point Programme for the development of selected PACS and LAMPS in the 20 pilot project districts would be launched by the NABARD. The three-year programme for the development of selected societies announced by the NABARD would cover all LAMPS and 30 selected PACS operating in each pilot district. The measures envisaged in the programme are intended to improve their operational efficiency by strengthening manpower, financial resources, infrastructural facilities, etc.

Rehabilitation of CCBs/SCBs

As on June 30, 1985, 165 weak CCBs were under rehabilitation programme, largest number of which were in Bihar (34) followed by Uttar Pradesh (31), Andhra Pradesh (16), Karnataka (13) and West Bengal (13). The NABARD has conducted evaluation studies in respect of 14 of them with a view to evaluating the progress of implementation of programmes of rehabilitation. The programme of rehabilitation also covers SCBs in the States of Assam, Manipur, Meghalaya, Nagaland and Tripura and the Union Territories of Chandigarh, Delhi, Goa and Pondicherry, the areas where two-tier co-operative credit structure prevails.

Rehabilitation of Co-operative Banks in the North-Eastern Region

The SCBs in Tripura and Meghalaya which have been seriously affected with heavy overdues were permitted to block their overdues over 3 years with a view to bringing down their overdues to permissible levels for the purpose of refinance from the NABARD. The NABARD has set up a Study Group to review the organisational and financial aspects of the Meghalaya Apex Bank.

Rehabilitation of 'Weak' PLDBs/Branches of SLDBs

Rehabilitation of weak LDBs has assumed importance in view of the NABARD Credit Project-I sanctioned by the World Bank, which requires rehabilitation on a priority basis of the PLDBs/branches of SLDBs, whose overdues exceed 60 per cent of the demand for the year 1984-85 and also of those units which may fall in this category in the subsequent years. The NABARD has issued a 10-Point Action Programme in January 1986 which covers, *inter alia*, merger of weak PLDBs with stronger PLDBs, investigation of overdues, strengthening of organisation and management, training of staff, examination of loan policies and procedures, strengthening of resources, etc. Primary units incurring losses continuously for the last 5 years or more were required to be treated as non-viable units and the programme of rehabilitation was not to be extended to such units. Further, a loan outstanding of Rs.70-75 lakhs was to be treated as the index of viability. Certain units, though not viable, could be retained on socio-economic grounds or other pressing reasons. During the Seventh Five Year Plan, LDBs are expected to disburse loans to the extent of Rs.3,845 crores for investment in agriculture.

NABARD's Assistance for Non-Agricultural Sector

With a view to promoting integrated rural development and securing prosperity of rural areas, the NABARD, besides supplying credit for agriculture and allied activities, provides credit to non-farm sector too. Financial assistance is thus provided to small-scale industries, cottage and village industries, industrial co-operative societies, etc. for meeting their working capital and block capital requirements. The short-term credit is provided for the purpose of financing production and marketing activities of co-operative sugar mills, handloom weavers' societies and 22 broad groups of recognised cottage and small-scale industries, industrial co-operative societies and weavers and rural artisan members of the village level co-operatives. Medium-term finance is also provided for meeting their investment capital needs. The changes in refinance assistance provided by the NABARD are reviewed in the following paragraphs.

Industrial Co-operatives

Handloom Finance

The NABARD's policy for the financial year 1985-86 with regard to the short-term financial accommodation available to SCBs on behalf of CCBs for financing the production and marketing activities of the primary weavers' co-operative societies and for financing the apex/regional weavers' societies for procurement and marketing of cloth remained unchanged. However, with a view to promoting the sale of handloom cloth, it was decided that the credit limits sanctioned by the NABARD on behalf of apex/regional weavers' societies for procurement and marketing of cloth might also be utilised for procurement of cloth from the societies outside the State, provided such purchases were made on a reciprocal basis and were at the instance of the Government of India. It was, however, to be ensured that such purchases were made only from those primary weavers' societies which were functioning on a production-cum-sale basis. Short-term credit limits sanctioned for the above purposes by the NABARD during the year 1985-86 (April-March) aggregated Rs.244 crores as compared to Rs.224 crores in 1984-85.

Refinance Assistance for Purchase of Shares in Consumer Type of Co-operative Spinning Mills

The NABARD has been extending since December 1983 refinance facilities by way of medium-term loans to members of primary handloom weavers' co-operative societies for acquiring shares in consumer type of co-operative spinning mills organised/to be organised in the country. Effective from November 1985, the scheme has been extended to cover even existing mills for the purpose of modernisation / expansion / diversification where such schemes have been approved by

term lending institutions like IDBI, IFCI, NCDC, etc. for necessary block capital assistance. Further, it has also been decided to extend the above refinance facilities to members of societies placed in 'C' class of audit in addition to 'A' and 'B' class societies which were only eligible hitherto, provided the societies are viable/potentially viable and are certified by the Director of Handlooms/Industries as good working societies.

Relaxation on Conditions Relating to Audit Classification of Societies for Acquisition/ Modernisation of Handlooms

The NABARD has been providing since December 1983, refinance facilities to members of primary weavers' co-operative societies having 'A' & 'B' class of audit during preceding two years for acquisition/modernisation of looms and construction of worksheds. Effective from November 1985, it has been decided to extend the above refinance facility to members of primary weavers' societies having 'C'. class audit classification provided the societies are viable/potentially viable and are certified as good working societies by the Director of Handlooms/Industries.

Financing of Primary Weavers' Co-operative Societies Directly by State Co-operative Banks

The NABARD has, effective from November 1985, permitted the SCBs to directly finance the primary weavers' co-operative societies in areas where DCCBs are not in a position to finance societies, for meeting their working capital requirements as also for extending finance for acquisition/modernisation of handlooms, construction of worksheds, etc., provided certain formalities are complied with and necessary safeguards are ensured.

Setting up/Renovation of Emporia by Apex/ Regional Handicrafts Co-operative Societies

The NABARD has extended refinance facilities for term loans advance for the setting up of new emporia and also for renovation of existing ones by the Apex/Regional Handicrafts Co-operative Societies. This is in addition to and on the same lines as the facility extended earlier to Apex Handloom Weavers' Societies. The NABARD has also extended term loan refinance facilities to commercial banks for setting up/renovation of emporia by State Handicrafts Development Corporations.

Financial Assistance to Industrial Co-operative Societies and Rural Artisan Members of Primary Level Societies

a) The NABARD has enlarged the scope of existing term loan assistance schemes for industrial co-operatives and primary level societies so that certain infrastructural facilities like workshed, godowns, showrooms, delivery van/truck can also be covered under the project. Further, the stipulation limiting the maximum term-loan eligible for refinance from the NABARD for individual co-operative societies to Rs.5 lakhs has been removed with effect from May 8, 1986. Rural artisan members of primary level societies are eligible for financial assistance of Rs.3,000 for construction of workshed in addition to the loan of Rs.10,000 already available for purchase of equipment and tools.

b) Effective January 24, 1986, the NABARD has extended refinance facility to SCBs for margin money assistance for financing the deserving industrial co-operative societies which are unable to provide 10 per cent of the cost of investment as margin money to avail of block capital assistance. The refinance assistance to the SCBs is on a schematic basis, interest free and to the full extent of their margin money advances to the eligible societies. The SCBs/DCCBs can levy a service charge upto 1 per cent per annum on the margin money loan which is to be repaid in annual instalments not exeeding 10 years, after the repayment of the term loans.

Non-Farm Activities

i) Refinance Assistance for Financing Cottage, Tiny and Village Industries in Rural Areas-New Policy

a) Regional Rural Banks

The NABARD has extended, with effect from January 20, 1986, automatic refinance facility to the RRBs to enable them to support the activities of rural artisans, handicraftsmen and entrepreneurs for setting up tiny/cottage industries in rural areas. The new package of credit support which is in addition to general line of credit available to them to meet short, medium and long-term financial requirements of their borrowers comprises General Refinance Scheme for artisans/cottage units and for infrastructural support i.e. construction of worksheds and a separate refinance scheme for assisting tribal and rural artisans in the North-Eastern region.

b) Commercial Banks

The NABARD has extended, effective from September 1985, automatic refinance assistance to all scheduled commercial banks to cater to the needs of a wide spectrum of industrial activities in rural areas including the 22 broad groups of activities already recognised by the NABARD and certain specific activities under tribal/forest areas. The refinance support will also be available to units in semi-urban centres having population upto 50,000 provided they support rural artisans/units by way of supply of inputs, marketing, employment generation, etc. Now, financial assistance is available under the NABARD's Automatic Refinance Scheme to commercial banks upto Rs.5 lakhs for financing individual artisans, entrepreneurs and groups of individuals and also to organisations engaged in the supply of inputs, including technological assistance or marketing or processing of rural products. The items of investment eligible for refinance include site development, constructions of sheds, plant and machinery, equipment and tools, technical upgradation, project formulation and consultancy charges, preliminary and pre-operative expenses and working capital requirements of one operating cycle.

With a view to accelerating the development of tribal areas and the North-Eastern region, the NABARD has announced 100 per cent refinance assistance as also special concessions in the rate of interest and longer gestation and loan maturity periods. Refinance assistance is available from the NABARD for such loans upto Rs.5 lakhs.

Refinance Assistance for Financing of Registered Institutions

The NABARD has extended term loan refinance facilities to commercial banks to enable them to meet the block capital requirements of the institutions registered under the Societies Registration Act, 1960 for taking up production activities of khadi and village industries approved under Section 3(i) of the Khadi and Village Industries Commission (KVIC) Act, 1956. The maximum term loan (net of capital subsidy, if any) eligible for refinance from the NABARD for individual registered institution fixed earlier at Rs.5 lakhs has been removed with effect from May 8, 1986. The NABARD's refinance to the commercial banks will be available upto 90 per cent of their term loan advances. The Government of India will be providing through KVIC an interest subsidy of 5 per cent per annum to the financing banks for the advances to the registered institutions.

Margin Money Assistance to Individual Entrepreneurs

The NABARD has created a separate Soft Loan Assistance Fund for Margin Money with an initial contribution of Rs.2 crores to provide margin money assistance by way of soft loans to proprietary/partnership concerns. The quantum of assistance under the scheme would be equal to the difference between the normal level of promoter's contribution to the project and the actual amount which the promoter can bring in together with subsidy. The refinance will be 100 per cent of the advances and interest free. The commercial banks are allowed to levy a service charge of 1 per cent on the margin money assistance to the ultimate beneficiary.

Financing of Non-Farm Activities to the Beneficiaries under SC/ST Action Plan Outside IRDP

The NABARD has extended refinance facilities to the beneficiaries under SC/ST Action Plan outside IRDP on the lines of IRDP upto 90 per cent of the composite loan at 6.5 per cent interest rate subject to the stipulation that the ultimate beneficiary be charged an interest rate not exceeding 10 per cent. The maximum amount of loan, excluding subsidy, to an individual should not exceed Rs.10,000.

Delinking of Overdues Norms — Non-Farm Activities

The NABARD has totally delinked eligibility criteria framed by it from overdues norms in regard to release of refinance to SCBs on behalf of DCCBs against advances for non-farm activities, whether short-term or long-term, for a period of three years ending June 1986, 1987 and 1988. However, the DCCBs have to maintain a DCB register separately for their advances under non-farm sector whether made out of the bank's own resources or with the refinance assistance from the NABARD or other agency. The recovery performance of the DCCB for non-farm sector has to be monitored by them and the SCB is to ensure that the overdue level does not exceed 40 per cent of the demand.

Refinance for Bio-gas Plants

The NABARD has enhanced the ceiling of investment of bio-gas plants from Rs.4,000 to Rs.5,000 (net of subsidy) for co-operative banks and brought them on par with the commercial banks for dispensing with the condition of obtaining charge/mortgage of land as security.

Other Developments

Credit Authorisation Scheme

The responsibility of administering the Credit Authorisation Scheme (CAS) of the Reserve Bank in respect of large advances for working and block capital requirements of the constituents of SCBs/CCBs rests with the NABARD. During 1985-86 (July-June), Credit Authorisation granted for block capital finance amounted to Rs.59 crores as against Rs.38 crores in 1984-85 (July-June). During the same period, authorisation granted for working capital finance amounted to Rs.1,239 crores as compared with that of Rs.1,083 crores in 1984-85. During the year under review, the following instructions regarding working capital limits to co-operative sugar factories were issued under CAS.

i) For the 1985-86 sugar season, the SCBs were permitted to sanction, without prior authorisation, working capital limits against pledge of stocks of sugar to co-operative sugar factories to the extent of 100 per cent of the maximum amount availed of by them during the previous season (excluding temporary excess drawings). No separate clean/hypothecation limits would generally be sanctioned to sugar factories without prior authorisation from the NABARD. The CCBs were, however, required to obtain, as hitherto, prior authorisation from the NABARD for sanction of working capital limits to co-operative sugar factories in excess of the limits of Rs.150 lakhs.

ii) Working capital limits granted to State level federations/agencies by SCBs/CCBs for purchase and distribution of chemical fertilisers which were exempted hitherto were brought within the purview of CAS as applicable to co-operative banks from the calendar year 1986.

Pilot Project — Credit Delivery System

The Pilot Project for strengthening the credit delivery system which was launched by the NABARD in March 1984 in Aurangabad (Maharashtra), Sabarkantha (Gujarat) and Hoshangabad (Madhya Pradesh) continued during 1985-86 and was monitored. The first one and a half year of implementation of this project has brought several visible and non-perceptible benefits e.g. increase in business and diversification of loan portfolio, improvement in recoveries, especially cash recoveries, positive impact on qualitative lending, spread-

ing of general awareness among the borrowers through field functionaries, etc. These developments have prompted the NABARD to extend the pilot scheme to another 17 districts in 9 more States in the country from July 1, 1986 bringing the total number of districts covered to 20 in 12 States. Beginning from July 1986, the scheme will be formally launched in the selected districts in a phased manner and necessary assistance would be available from the World Bank to fund the Project.

Comprehensive Crop Insurance Scheme

The Comprehensive Crop Insurance Scheme introduced by the Government of India from the 1985 *Kharif* season replaced the earlier Pilot Crop Insurance Scheme. The details of the scheme were provided in the 1984-85 Report. The Scheme has been implemented in 11 States viz., Andhra Pradesh, Bihar, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Tamil Nadu, Uttar Pradesh and West Bengal and 2 Union Territories during the 1985 *Kharif* season. Punjab, Haryana and North-Eastern States did not participate in the scheme. During 1985-86 *rabi* season 13 States including Rajasthan and Tripura and 3 Union Territories have implemented the scheme. It has since been decided that the scheme will be continued during the Seventh Plan period in all its aspects and more States are expected to participate in the scheme.

During the 1985 *Kharif* season , 23.14 lakh farmers and a cultivating area of 43.24 lakh hectares were covered under the Crop Insurance Scheme upto end-June 1986. The crop loans insured aggregated Rs.541.7 crores. The premium collected amounted to Rs.9.4 crores. Claims aggregating Rs.63.4 crores have been paid by the General Insurance Corporation out of total claims filed for Rs.101 crores. For the 1985-86 *rabi* season, a total of 12.63 lakh farmers and 19.04 lakh hectares of cultivated area had been covered under crop loans aggregating Rs.228.32 crores against which premia totalling Rs.4.13 crores have been collected. Total claims intimated to the General Insurance Corporation upto June 30, 1986 amounted to Rs.1.33 crores.

Stabilisation Arrangements vis-a-vis Crop Insurance Scheme

In areas where crops were damaged due to natural calamities and consequently the State Government declared 'annewari' of 6 annas or below, the indemnity under the Crop Insurance Scheme may not fully cover the amount of loan availed of by the cultivators. It was, therefore, decided that in such cases, the balance loan amount after adjusting the crop insurance compensation will be eligible for conversion into medium-term loans with credit support from the NABARD.

Preparation of Annual Credit Plan and Performance Budgeting

With a view to ensuring that the resources available to SCBs and CCBs were deployed judiciously and efficiently in accordance with the order of priorities, they were advised to draw annual credit plans and introduce performance budgeting commencing with the co-operative year 1986-87. Necessary guidelines in this respect were issued by the NABARD.

Licensing of Co-operative Banks

During 1985-86 (July-June), licences to carry on/commence banking business under section 22 (2) of the Banking Regulation Act, 1949 (as applicable to co-operative societies) were issued by the Reserve Bank to 26 PCBs. The total number of licensed co-operative banks as at end-June 1986 went up to 497 (comprising 8 SCBs,35 CCBs and 454 PCBs) from 471 a year ago. During 1985-86 (July-June) licences were issued to 6 SCBs and 52 PCBs for opening new offices (under Section 23 of the Banking Regulation Act, 1949) against 5 SCBs and 200 PCBs during 1984-85 (Table VII-43)..

Inspection of Co-operative Banks

Inspection of SCBs, CCBs and RRBs is the responsibility of the NABARD. However, in-

Table VII-43: Licenses issued to co-operative banks during 1983-84, 1984-85 and 1985-86 (July-June)

	1983-84				1984-85				1985-86			
	SCBs	CCBs	PCBs	Total	SCBs	CCBs	PCBs	Total	SCBs	CCBs	PCBs	Total
	1	2	3	4	5	6	7	8	9	10	11	12
Licenses issued to carry on/commence banking business	—	2	52	54	—	—	35	35	—	—	26	26
No. of licenced banks at the end of the year	8	35	393	436	8	35	428	471	8	35	454	497
Licences issued for opening new offices	6 (19)	—	156	162	5 (7)	—	200	205	6 (21)	—	52	58

Note: Figures in brackets indicate the number of branches for which licences were issued. — = Nil

spection of SLDBs and other Federations/ Corporations is undertaken by the NABARD on a voluntary basis. During 1985-86 (upto March 1986) 180 CCBs, 9 SCBs, 12 SLDBs, 104 RRBs and 12 other institutions were inspected by the NABARD.

Research and Development Fund

During 1985-86 (July-June), the NABARD provided assistance from its Research and Development (R&D) Fund to 13 more RRBs for establishing/strengthening their Technical, Monitoring and Evaluation (TME) Cells, bringing the total number of RRBs assisted from the Fund to 27 as on June 30, 1986 from 14 as on June 30, 1985. The total number of SLDBs/ SCBs for whom assistance was sanctioned from the R&D Fund remained unchanged at 11 and 2, respectively, as on June 30, 1986. During the year a sum of Rs.77.12 lakhs was disbursed from the Fund to various agencies for undertaking research projects/studies, organising seminars/conferences/symposia, etc., on subjects of relevance to the NABARD and for setting up/strengthening the Technical, Monitoring and Evaluation (TME) Cells in SLDBs and RRBs as against Rs.22.1 lakhs in the previous year. The total number of research proposals approved for assistance from the Fund stood at 40 at end-June 1986 as against 34 at the end of June 1985. Four research proposals/ studies involving financial assistance of Rs.10.04 lakhs to various research institutions and universities were also approved by the NABARD during 1985-86.

Farmers' Service Societies (FSS)

The scheme of setting up of Farmers' Service Societies (FSS) to cater to the credit and non-credit requirements of farmers at a single platform is in operation since 1973-74. As on June 30, 1985, there were 2,517 such societies. Of these as many as 2,062 societies (or 81.9 per cent) were in four States viz., Uttar Pradesh (1049), Assam (699), Karnataka (213) and Bihar (101). The membership as at the end of June 1985 was 58.09 lakhs of which scheduled castes and scheduled tribes constituted 21.1 per cent. The paid up capital of FSS stood at Rs.57.36 crores of which Rs.11.06 crores was contributed by State Governments. The FSS had issued loans of Rs.191.53 crores to 12.91 lakh borrowers during 1984-85. Their overdues at Rs.120.37 crores formed 47.9 per cent of their outstanding loans of Rs.251.16 crores at the end of June 1985.

Large-sized Adivasi Multi-purpose Societies (LAMPS)

The Large-sized Multi-purpose Societies (LAMPS) operate mainly in backward regions, viz., hilly and tribal areas. As on June 30, 1985, the number of LAMPS stood at 2,863. Four States viz., Madhya Pradesh (1,053), Bihar (474), Maharashtra (275), Rajasthan (237) and

Orissa (222) together accounted for more than 78 per cent of the LAMPS. Total membership of LAMPS was 40.77 lakhs of which 24.80 lakhs were scheduled tribes and 6.15 lakhs scheduled castes. The paid-up share capital amounted to Rs.47.53 crores, the Government contribution being Rs.17.02 crores. The overdues of LAMPS at Rs.73.09 crores formed about 48.6 per cent of the outstandings.

Commercial Banks and Rural Credit

Although co-operatives have been assigned a dominant role in the sphere of rural credit, their efforts in meeting the credit requirements of the rural sector are supplemented by the commercial banks, particularly after nationalisation of 14 commercial banks in 1969. As mentioned in the last year's Report, the Reserve Bank advised the scheduled commercial banks in October 1980 that their priority sector advances should constitute 40 per cent of the total bank advances by March 1985. They were also advised to achieve the following sub-targets:

(i) Direct finance for agriculture should reach a level of 15 per cent of total bank credit by March 1985 which should be stepped up to 16 per cent by March 1987, and

(ii) Advances to weaker sections of the economy should form 25 per cent of the priority sector advances or 10 per cent of the total advances by March 1985.

The provisional data on outstanding advances of public sector banks to priority sectors as at the end of June 1986* are presented below:

	(Rupees crores)
i) Outstanding advances to priority sectors	21829.56
Percentage to total Credit	43.2
ii) Outstanding direct advances to agriculture	8059.95
Percentage to total credit	15.9
iii) Outstanding advances to weaker sections	5382.32
Percentage to priority sector advances	24.7
Percentage to total credit	10.6

* The data are obtained from special returns and hence may not tally exactly with similar data given elsewhere in the Report.

Disbursal of Credit for Agriculture and Allied Activities

Data on direct finance disbursed by scheduled commercial banks (excluding RRBs) for agriculture and allied activities are available upto 1983-84. During 1983-84 (July-June),credit disbursed for agriculture and allied activities amounted to Rs.1,858 crores, recording a substantial rise of Rs.633 crores or 51.7 per cent over the amount disbursed during 1982-83 (Rs.1,225 crores). A major portion of the credit (Rs.1,130 crores or 60.8 per cent) was disbursed by the nationalised banks during 1983-84. The State Bank of India Group accounted for Rs.655 crores (35.3 per cent) and foreign and other scheduled commercial banks for Rs.73 crores (3.9 per cent) (Table VII-44).

Table VII-44: Disbursal of credit for agriculture and allied activities by commercial banks during 1982-83 and 1983-84 (July-June)

(Rupees crores)

Category of Banks	1982-83	1983-84
Nationalised Banks	831	1,130
	(67.8)	(60.8)
State Bank of India Group	342	655
	(27.9)	(35.3)
Foreign and other Scheduled Commercial Banks	52	73
	(4.3)	(3.9)
Total	1,225	1,858
	(100.0)	(100.0)

Note: Figures in brackets indicate the share of each category of banks to the total loans disbursed.
Source: Data collected by RBI under Special Return I.

Purpose-wise Disbursements

During 1983-84 (July-June), short-term loans aggregating Rs.872 crores were disbursed by scheduled commercial banks (excluding RRBs) which formed 47 per cent of the total loans disbursed during the year (Rs.1,858 crores). Disbursal of term loans for agriculture and loans for allied activities amounted to Rs.647 crores (34.8 per cent) and Rs.339 crores (18.3 per cent), respectively. Among term loans, tractors, agricultural implements and

machinery accounted for bulk of the loans disbursed (51.7 per cent). The share of minor irrigation schemes was 20.6 per cent. As regards allied agricultural activities, nearly 51 per cent of the credit was disbursed for dairying. Poultry farming, piggery and bee-keeping and fisheries accounted for 13 per cent and 7.1 per cent, respectively (Table VII-45.)

Region-wise Disbursements

Region-wise, Southern region continued to account for the bulk of the credit disbursed and its share in total credit disbursements increased from 49.3 per cent in 1982-83 to 52 per cent in 1983-84. The shares of Northern region and Western region also increased marginally from 17.8 per cent and 13.0 per cent, respectively, in 1982-83 to 18.2 per cent and 13.7 per cent, respectively, in 1983-84. The share of North-Eastern region at 0.7 per cent showed a nominal rise of 0.1 percentage point over the same period. The shares of Central region and Eastern region, however, declined from 12.3 per cent and 7.0 per cent, respectively, in 1982-83 to 10.1 per cent and 5.4 per cent, respectively, in 1983-84 (Table VII-45).

Central/State Governments and Co-operative Credit

In addition to the general monitoring, guidance and refinance support provided by the NABARD for the development of co-operative movement on sound and healthy lines throughout the country, the Government of India also initiated several central sector and centrally sponsored schemes aimed at giving financial assistance to co-operatives for specified/identified purposes, especially in the co-operatively underdeveloped States. The progress under these schemes during 1985-86 is reviewed below:

Risk Fund for Consumption Credit

Risk Fund assistance for consumption credit has been in operation as a non-plan scheme since 1977-78, covering all the States and Union Territories. The scheme is intended to enable commercial banks, co-operative banks and RRBs to provide consumption credit to weaker sections in rural areas, viz., cultivators with land holdings upto 0.5 acre whether as owners or tenants, landless labourers, rural artisans and other people of very small means like carpenters, barbers, washermen, etc. Under the scheme, the State Government contributes the entire amount of Risk Fund assistance (i.e. 10 per cent of the total consumption loans disbursed) and later claims 50 per cent of the assistance as reimbursement from the Government of India.

During 1985-86 (April-March), the Government of India released a sum of Rs.4.65 lakhs under the scheme to four States, viz., Maharashtra, Madhya Pradesh, Orissa and Uttar Pradesh. An amount of Rs.7.06 lakhs was released during the previous year to 5 States, viz., Andhra Pradesh, Madhya Pradesh, Punjab, Tamil Nadu and Uttar Pradesh. A budgetary provision of Rs.20 lakhs has been made for the year 1986-87.

Agricultural Credit Stabilisation Fund

The Agricultural Credit Stabilisation Fund is maintained by SCBs/CCBs for the purpose of converting the short-term loans of the farmer members of the co-operatives into medium-term loans whenever crop loss in the regions affected by natural calamities is declared to be more than 50 per cent. The optimum level to be maintained for this Fund is worked out by the Reserve Bank/NABARD from time to time. The NABARD contributes 60 per cent of the amount from its NRC (Stabilisation) Fund, the State Governments 15 per cent and the SCBs/CCBs the remaining 25 per cent. Under the centrally sponsored scheme of assistance in operation since 1966-67, deficit in the Fund to the extent of 40 per cent is being met by the Government of India, 15 per cent by way of grants and 25 per cent by way of loans. The amount released to various State Governments during the year 1985-86 (April-March), aggregated Rs.1.6 crores and the total amount released since its inception reached Rs.127.6 crores till end-March 1986. The scheme is pro-

Table VII-45: Purpose-wise/region-wise distribution of credit by scheduled commercial banks — 1982-83 and 1983-84 (July-June)

(Rupees lakhs)

Items	1982-83							1983-84						
	Northern Region	North-Eastern Region	Eastern Region	Central Region	Western Region	Southern Region	Total	Northern Region	North-Eastern Region	Eastern Region	Central Region	Western Region	Southern Region	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
I. Short-term Loans (including Crop Loans)	**5098**	**282**	**3804**	**2793**	**5064**	**39440**	**56481**	**6786**	**528**	**4214**	**3997**	**8218**	**63503**	**87246**
	(9.0)	(0.5)	(6.7)	(4.9)	(9.0)	(69.8)	(100.0)	(7.8)	(0.6)	(4.8)	(4.6)	(9.4)	(72.8)	(100.0)
	(23.4)	(40.1)	(44.0)	(18.5)	(31.8)	(65.4)	(46.1)	(20.0)	(40.3)	(42.1)	(21.4)	(32.4)	(65.8)	(47.0)
II. Term Loans (A + B)	**16673**	**421**	**4843**	**12313**	**10848**	**20895**	**65993**	**27095**	**781**	**5793**	**14679**	**17166**	**33063**	**98577**
	(25.3)	(0.6)	(7.3)	(18.7)	(16.4)	(31.7)	(100.0)	(27.5)	(0.8)	(5.9)	(14.9)	(17.4)	(33.5)	(100.0)
	(76.6)	(59.9)	(56.0)	(81.5)	(68.2)	(34.6)	(53.9)	(80.0)	(59.7)	(57.9)	(78.6)	(67.6)	(34.2)	(53.0)
A) Loans for Agriculture	12520	194	2544	8875	6649	10412	41194	21786	276	3616	10387	11321	17272	64658
i) Minor Irrigation Schemes	2072	15	736	1768	1686	1318	7595	2391	26	856	3245	3352	3453	13323
ii) Reclamation and Land Development Schemes	180	7	54	95	281	695	1312	253	13	107	117	295	1068	1853
iii) Tractors and Agricultural Implements and Machinery	8575	51	648	4143	2955	3112	19484	16641	66	1008	5299	4886	5553	33453
iv) Plantations	61	22	93	158	145	1744	2223	39	52	90	45	341	2314	2881
v) Other Term Loans	1631	100	1013	2710	1582	3544	10580	2463	119	1555	1681	2447	4883	13148
B) Loans for Allied Activities	4153	227	2299	3438	4199	10483	24799	5309	505	2177	4292	5845	15791	33919
i) Dairying	2480	76	706	2251	2315	5140	12968	3258	192	766	2508	3540	7001	17265
ii) Poultry Farming, Piggery and Bee-keeping	560	39	323	450	325	1613	3310	625	87	481	456	433	2311	4393
iii) Fisheries	16	38	267	47	578	1089	2035	29	110	286	94	625	1273	2417
iv) Others	1097	73	1004	690	981	2642	6487	1397	115	644	1234	1247	5207	9844
Grand Total (I + II)	**21771**	**703**	**8648**	**15106**	**15912**	**60335**	**122475**	**33882**	**1309**	**10007**	**18676**	**25383**	**96566**	**185823**
	(17.8)	(0.6)	(7.0)	(12.3)	(13.0)	(49.3)	(100.0)	(18.2)	(0.7)	(5.4)	(10.1)	(13.7)	(52.0)	(100.0)
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Note: 1. Due to rounding off of figures, the constituent items may not add up to the totals shown.

2. Figures in the first bracket indicate the share of each region to the total loans disbursed under the main categories i.e. short-term loans & term loans.

3. Figures in the second bracket indicate share of each category of loans disbursed to the grand total.

Source: Data collected by RBI under Special Return I.

posed to be continued during the year 1986-87 with an outlay of Rs.0.8 crore.

Assistance to Co-operative Credit Institutions in Co-operatively Underdeveloped States

This Central Sector Scheme is in operation from the beginning of the Fifth Five Year Plan. Its major objective is correcting regional imbalances in co-operative development programme, particularly in the sphere of agricultural credit. The growth rate in disbursement of agricultural credit based on per hectare of gross-cropped area was less than the All-India average in the States of Assam, Bihar, Meghalaya, Manipur, Nagaland, Orissa, Rajasthan, Tripura and West Bengal and these were classified as co-operatively underdeveloped States. The major problem is the blocking up of the resources of the co-operative banks due to heavy overdues. This restricts the eligibility of DCCBs for refinance from the NABARD. Under this scheme the assistance is provided to DCCBs to meet the deficit in the non-overdue cover for obtaining credit limits from the NABARD for their lending programmes. The scheme was subsequently extended to cover tribal areas where there was concentration of scheduled castes to the extent of 20 per cent or more and in the blocks selected for Special Rice Production Programme. A sum of Rs.5 crores was released to various State Governments during 1985-86 under the scheme. The budgetary provision for the year 1986-87 is Rs.4.75 crores.

Other Institutions in the Field of Rural Credit

1. National Co-operative Development Corporation

The National Co-operative Development Corporation (NCDC), since its inception in March 1963, has been promoting various economic programmes in the co-operative sector and providing financial assistance in the form of loan and subsidy to the co-operatives under the schematic pattern of assistance evolved for different schemes. The activities of the NCDC in planning and promoting the programme through co-operative societies for the production, processing, marketing, storage, export and import of agricultural produce, foodstuffs and certain other commodities recorded further progress during the financial year 1985-86. Further, it continued to implement the erstwhile programmes viz., poultry, fisheries, minor forest produce, handlooms, coir, sericulture, dairy farming and strengthening of public distribution system in rural areas in the co-operative sector — basically intended to benefit the weaker sections of the society namely scheduled castes and tribes. The NCDC after successfully implementing NCDC-I and European Economic Community (EEC) projects, took up NCDC-III project during 1984-85 besides continuing NCDC-II project. The NCDC is taking necessary steps to finalise the projects for securing assistance from World Bank for NCDC-IV project in the field of fishery and storage. The Mustard Seed Development Project in Rajasthan has already been approved by EEC for operations from the year 1986-87. Intensive development of PACS as multi-purpose entities being one of the major activities of the Seventh Plan, NCDC has prepared a scheme for Integrated Co-operative Development Projects (ICDP) in selected districts for area development through co-operatives in agricultural, allied and non-farm sectors. It is expected that 35 districts will be covered under this scheme. Each project would cost about Rs.3 crores and total outlay of the scheme will be Rs.105 crores.

The total financial assistance provided by the Corporation during the year 1985-86 was Rs.120.5 crores, showing a decline of Rs.8.6 crores or 6.7 per cent over the assistance of Rs. 129.1 crores in 1984-85.(Table VII-46).Out of Rs.120.5 crores, an amount of Rs.60.8 crores was disbursed under the Central Sector Scheme as against Rs.70.3 crores in the previous year. Disbursement under the Corporation Sponsored Schemes were Rs.59.6 crores as against Rs.58.8 crores in 1984-85.

State-wise, two-thirds of the total assistance (Rs.120.5 crores) provided by the Corporation during 1985-86 was shared by seven States:

Table VII-46: NCDC's Financial Assistance during 1983-84 to 1985-86 (April-March)

(Rupees crores)

Schemes/purposes	Amount disbursed		
	1983-84	1984-85	1985-86
1	2	3	4
I. Central Schemes	**81**	**70**	**61**
a) Co-operative storage programme with international aid	29	34	32
b) Co-operative marketing, processing and storage programmes in under-developed States/Union Territories	9	8	7
c) Margin money assistance to village societies for distribution of consumer articles in rural areas	4	5	3
d) Finance for co-operative sugar factories, co-operative spinning mills, NAFED, etc.	39	23	19
II. Corporation Sponsored Schemes	**46**	**59**	**60**
a) Storage	18	23	19
b) Agro-processing	10	17	13
c) Weaker sections	7	8	11
d) Agricultural marketing	3	3	9
e) Rural consumer activity	5	4	4
f) Agro-services and promotional & Developmental programmes	3	4	4
III. Total (I + II)	**127**	**129**	**121**

viz., Andhra Pradesh (7.2 per cent), Karnataka (5.8 per cent), Madhya Pradesh (9.3 per cent), Maharashtra (11.7 per cent), Punjab (6.7 per cent), Rajasthan (6.7 per cent) and Uttar Pradesh (17.4 per cent). Total assistance provided by NCDC to the various State Governments and other agencies since its inception aggregated about Rs.965.0 crores of which the amount of Rs.632.5 crores was outstanding as at the end of March 1986.

As on March 31, 1986, NCDC has sanctioned an amount of Rs.77.0 crores for 2,654 projects for distributing consumer goods in rural areas covering 46,434 village societies in 22 States and 3 Union Territories.

Central Warehousing Corporation

The total number of warehouses managed by the Central Warehousing Corporation (CWC) during the year 1985-86 (April-March) increased to 430 from 408 in 1984-85. The total warehousing capacity increased to 54.6 lakh tonnes from 48.7 lakh tonnes. At end-March 1986,the owned, hired and plinth capacity of the Corporation increased to 36.1 lakh tonnes, 17.4 lakh tonnes and 1.1 lakh tonnes, respectively from 31.8 lakh tonnes, 16.2 lakh tonnes and 0.7 lakh tonnes, respectively at end-March 1985 (Table VII-47).

During the Sixth Five Year Plan, the Central Warehousing Corporation achieved a total construction of 15.4 lakh tonnes. A target of 20 lakh tonnes with an outlay of Rs.126.5 crores has been fixed for the Seventh Five Year Plan.

State Warehousing Corporations

During the year 1985-86, the number of warehouses managed by the State Warehousing Corporations (SWC) increased by 186 from 1,609 to 1,795 and total warehousing capacity increased by 11.5 lakh tonnes from 67.6 lakh tonnes to 79.1 lakh tonnes (Table VII-47).

Table VII-47: Warehousing Corporations — Position as at the end of 1983-84, 1984-85 and 1985-86 (April-March)

(Capacity in lakh tonnes)

Agency/Year	Number of warehouses	Owned	Hired	Plinth	Total
1	2	3	4	5	6
I. Central Warehousing Corporation					
1983-84	381	29.8	15.5	0.5	45.8
1984-85	408	31.8	16.2	0.7	48.7
1985-86	430	36.1	17.4	1.1	54.6
II. State Wareshousing Corporations					
1983-84	1522	36.0	23.7	—	59.7
1984-85	1609	39.5	28.1	—	67.6
1985-86	1795	45.3	33.7	—	79.1

Rural Electrification Corporation

The Rural Electrification Corporation (REC) was set up in 1969 to ensure rapid electrification of the rural and backward areas, to promote decentralised distribution of power in rural areas on co-operative basis and also exploit fully the irrigation potential through energisation of pumpsets in collaboration with the State Electricity Boards.

During the year 1985-86 (July-June), the Corporation sanctioned financial assistance to the extent of Rs.343 crores as against Rs.483 crores during 1984-85. Disbursements during the year amounted to Rs.354 crores as compared with Rs.327 crores in the previous year (Table VII-48).

Table VII-48 Schemes sanctioned and loans disbursed by REC (July-June)

(Rupees crores)

Items	1983-84	1984-85	1985-86	Cumulative position as at end-June 1986
1	2	3	4	5
1. No. of schemes sanctioned	1,618	1,710	1,535	11,347
	(128)	(140)	(27)	(800)
2. No. of villages electrified	32,768	31,489	15,305	3,54,524
	(6,081)	(5,395)	(636)	(41,729)
3. Total cost of schemes	698	712	400	4,524
4. Amount sanctioned	484	483	343	3,341
	(10)	(8)	(1)	(44)
5. Amount disbursed	303*	327‡	354£	2,329
	(5)	(5)	(3)	(34)

Note : Figures in brackets are in respect of Harijan Basti Schemes included in the respective totals.

* : Inclusive of inventory loans amounting to Rs.46.3 crores adjusted during 1983-84.

‡ : Includes inventory loans aggregating Rs.30.4 crores adjusted during 1984-85.

£ : Includes inventory loans amounting to Rs.50 crores adjusted during 1985-86.

During the year, the Corporation sanctioned 1,535 new schemes covering 15,305 villages as against 1,710 schemes that covered 31,489 villages during 1984-85. The cumulative financial assistance sanctioned and disbursed by the REC upto end-June 1986 amounted to Rs.3,341 crores and Rs.2,329 crores, respectively. State-wise details are presented in Table VII-49

Table VII-49: State-wise data on schemes sanctioned and loans disbursed by REC (cumulative position) as at the end of June 1985 and 1986

(Rupees crores)

State	No. of schemes sanctioned		Villages covered		Loan amount sanctioned*		Amount disbursed*	
	1985	1986	1985	1986	1985	1986	1985	1986
1	2	3	4	5	6	7	8	9
Andhra Pradesh	913	1105	19330	19670	233.6	267.4	152.7	187.2
Assam	228	243	15092	15627	154.9	162.2	96.8	111.9
Bihar	844	915	45186	46491	248.5	262.3	163.2	184.7
Gujarat	408	510	12500	12820	110.4	127.3	85.9	103.4
Haryana	289	360	5917	5917	68.3	78.8	51.4	59.5
Himachal Pradesh	175	194	12862	13013	89.0	99.8	51.2	61.8
Jammu & Kashmir	147	152	5783	5830	49.2	52.6	39.6	43.0
Karnataka	483	593	10619	11109	108.6	125.8	80.9	98.8
Kerala	194	231	327	327	44.9	56.7	28.2	38.3
Madhya Pradesh	1361	1598	55423	58917	420.1	476.7	264.1	310.4
Maharashtra	885	953	17320	17622	217.4	230.4	150.2	181.9
Manipur	21	27	783	942	12.0	16.2	6.1	5.3
Meghalaya	56	56	1978	1978	26.2	26.2	21.4	22.7
Nagaland	28	28	574	574	18.0	18.0	12.6	14.3
Orissa	532	571	32106	32959	177.3	187.3	116.6	128.8
Punjab	458	508	4385	4385	137.8	146.8	108.4	121.2
Rajasthan	823	907	24128	25123	207.1	217.0	153.2	161.2
Sikkim	19	19	184	184	10.9	10.9	5.9	8.0
Tamil Nadu	528	651	1253	1253	107.1	124.0	81.9	94.5
Tripura	63	68	2402	2639	23.9	26.5	14.1	16.6
Uttar Pradesh	964	1190	50268	55095	380.0	460.0	211.6	240.6
West Bengal	396	468	20899	22049	154.2	168.9	129.4	135.1
TOTAL	**9815**	**11347**	**339319**	**354524**	**2999.3**	**3341.4**	**2025.2**	**2329.2**

* Due to rounding off of figures, the constituent items may not add up to the totals shown.

During the year 1985-86 (July-June), the Corporation sanctioned 27 schemes for *Harijan Bastis* involving financial assistance of Rs.1 crore as compared with 140 schemes involving financial assistance of Rs.8 crores last year. The amount disbursed during the year amounted to Rs.3 crores as against Rs.5 crores in the preceding year. As at the end of June 1986, the REC had approved 800 schemes for *Harijan Bastis* covering 41,729 villages. Cumulative financial assistance sanctioned by the REC till June 1986 for the scheme amounted to Rs.44.4 crores.

Agricultural Finance Corporation

The Agricultural Finance Corporation's (AFC) activities during the year 1985-86 (July-June) continued to be centred around project formulation in the disciplines of Command Area Development (CAD), Micro Watershed, Drip Irrigation, Block Level Planning, etc.

Identification of projects, monitoring and evaluation, research studies and international assignments were the other areas of activities of the Corporation during the year under review. During the year 1985-86 (July-June), the Corporation handled 89 assignments including 9 international assignments as against 52 assignments handled during the last year. Some of these projects formulated were in the backward areas, many of which were in the North-Eastern region. These projects in backward areas were expected to improve the economic condition of the weaker sections by creating absorptive capacity for credit in rural areas, improving levels of productivity and generating employment. The Corporation continued to monitor on behalf of the Department of Welfare, GOI, the activities of the various State Scheduled Castes Development Corporations through its cell at New Delhi. It also continued to conduct evaluation and intervention studies in respect of Tawa Command Area Development project in Madhya Pradesh through its cells set up at Bombay and Bhopal in collaboration with the Ford Foundation. Intervention studies relating to irrigation methods and practices, on-farm development works and effect of implementation of drainage programme were undertaken in the Command Area with a view to identifying the impediments which contributed to under-utilization of irrigation potential created. A number of research and special studies were also conducted by the Corporation during the year, notable among them being the study of three selected Command Area Development (CAD) projects (one each in Karnataka, Gujarat and Rajasthan), IRDP evaluation studies in Rohtak (Haryana) and Meghalaya and Concurrent Evaluation Study of IRDP in 72 districts of the country.

The Corporation is also endeavouring to expand its role in international consultancy. During 1985-86 (July-June), the Corporation handled nine international assignments, important among them being Perlis Agricultural Development Project in Malaysia, Rural Development Project Mission in Yemen, Small Hill Side Farmers' Development Project in Jamaica, Preparation of Hill Fruit Development Project, Nepal and deputation of an expert to Sri Lanka to assist the Government of Sri Lanka in the implementation of the National Live-stock Developent Project funded by the Asian Development Bank. The consultancy fee earned by the Corporation in respect of international assignments amounted to US $ 56,798 in 1985-86 (July-June) as against US $ 45,363 in 1984-85 (July-June).

A Senior Level Operational Co-ordination Committee (SLOCC) has been set up in the Corporation with the Managing Director as its Chairman and the officers in-charge of Priority Sector/Agricultural Finance Departments of the Public Sector Banks and a representative of the NABARD as the members. The committee would review the progress of assignments and identify new projects to be taken up by the AFC on behalf of the Banks.

Study Teams/Committees/Working Groups

The Committee on Term Lending through Co-operatives (COTELCOOP)/Standing Committee on Co-operative Credit

The Committee on Term Lending through Co-operatives (COTELCOOP) continued to review the recovery performance of co-operative credit institutions besides reviewing the progress made so far in the matter of rehabilitation of 'weak' CCBs, SLDBs and PLDBs.

A sub-group of COTELCOOP appointed by the NABARD in May 1983 to review the staffing norms in LDBs and suggest incentive schemes for recovery and information system has made certain recommendations. These recommendations were communicated to all SLDBs and they were asked to indicate the extent to which it would be possible for them to implement the recommendations and also study the financial implications. The SLDBs were advised that in case of any difficulty in accepting the recommendations, the reason therefor and also the alternative suggestions should be intimated to the NABARD.

Standing Committee on Co-operative Credit

With a view to enlarging the scope of the COTELCOOP which was mainly concerned with the policy issues of LDBs, it has been reconstituted by the NABARD into a Standing Committee on Co-operative Credit. The standing committee would advise the NABARD on policy issues pertaining to short-term and long-term co-operative credit structure.

Study Group on IRDP

The Reserve Bank set up a Study Group under the Chairmanship of Shri R.K. Kaul, Deputy Governor, RBI and Chairman of the NABARD for streamlining the existing arrangement for the flow of credit and supply of inputs and assets to IRDP beneficiaries. The Group has examined one of the terms of reference viz., the suitability of payment of loan and subsidy in cash to IRDP beneficiaries and submitted an interim report to RBI/Government of India. Its recommendation that loans and subsidies should be disbursed in cash has been accepted by the Government of India. The scheme of disbursing loans and subsidies in cash is to be implemented in selected blocks from April 1, 1986. On the basis of the recommendations of the Group, the Government of India has advised the State Governments to dispense with the purchase committees in the selected blocks. The animals purchased under the new disbursement procedure will be covered by a blanket insurance cover provided by the insurance companies without insisting on a health certificate.

High Level Standing Committee to Review the Flow of Institutional Credit for Rural Sector and Other Related Matters

The Reserve Bank set up in November 1985, a High Level Standing Committee under the Chairmanship of Dr. P.D. Ojha, Deputy Governor, RBI to review the flow of institutional credit to rural sector and other related matters and suggest measures for improving the credit delivery system for the greater benefit of farmers, artisans, landless labourers and other weaker sections, particularly scheduled castes and scheduled tribes.

The Committee in accordance with its terms of reference will, *inter alia*, review and assess the requirements and availability of institutional credit for agriculture, identify operational shortcomings which inhibit effective delivery of institutional credit to the intended beneficiaries of various programmes and activities and suggest remedial measures. It will examine the progress made in correcting regional imbalances in the matter of agricultural credit and recommend appropriate steps to improve the position as also review the progress of flow of credit and complementary inputs to weaker sections of society and recommend measures to improve the position in this behalf. The Committee will also go into the aspect of co-ordination between credit institutions and various State Government agencies and departments concerned with agriculture, rural development and small-scale and village industries and recommend measures for improving effective co-ordination in this regard. Promotion of co-ordination at the National and State level among credit institutions and other agencies concerned with institutional credit for agriculture and rural development will be the other area of concern to the Committee. The terms of reference also enjoin the Committee to suggest measures so that co-operative banks and land development banks at State and District levels become effective agencies to facilitate the flow of rural credit. It will suggest improvements needed in infrastructural support and packages of complementary inputs, including technological support with a view to making rural credit more effective. The Committee will also identify factors which adversely affect the timely recovery of rural credit and suggest ways and means of improving recycling of funds of credit institutions.

Expert Group for Agricultural Credit Review under NABARD Credit Project-I

The Reserve Bank of India has set up a Senior Expert Group on 1st August, 1986 under the Chairmanship of Prof. A.M. Khusro for

Agricultural Credit Review under NABARD credit Project-I. The main objective of this agricultural credit review would be to define a programme to strengthen the agricultural credit system, improve quality of lending and its effectiveness as well as ensure quality of service to farmers while enhancing the effectiveness both of supervision and control over agricultural credit operation. The agricultural credit review would be executed under the general guidelines of the Reserve Bank. In view of the complexity of the agricultural credit system in India and the intricate nature of sensitivity of issues to be addressed, it has been decided that while the review should be undertaken through five separate studies to be executed by local and foreign consulting groups, the Senior Expert Group constituted under the auspices of the Reserve Bank should co-ordinate and guide the five studies and prepare an integrated final report.

The broad areas to be covered by the five studies and the review would be:

(i) Agricultural credit in general;
(ii) Role and effectiveness of lending institutions;
(iii) Role and functions of the apex level institutions in agricultural credit;
(iv) Lending costs and margins; and
(v) Organisation of Management Study of the NABARD.

The consultants are expected to complete their studies and the reports thereon by the end of July 1988 and the Senior Expert Group will submit its final integrated report and recommendations on or before 31st December, 1988.

Working Group to Examine the Scope and Functions of SLDBs

The NABARD constituted a high level Working Group in December 1984 under the Chairmanship of Shri V.I. Rajagopal, IAS (Retd.), to look into the scope and functioning of the SLDBs. The Working Group submitted its Report in December 1985 which is under consideration of the NABARD.

ANNEXURE

SELECTIVE CREDIT CONTROL

SUMMARY OF THE PROVISIONS OF DIRECTIVES APPLICABLE TO SCHEDULED COMMERCIAL BANKS ON ADVANCES AGAINST SELECTED COMMODITIES

(Position as on April 4, 1986)

A. PULSES AND OTHER FOODGRAINS viz., Jowar, Bajra, Maize, Barley, Ragi, Gram and all other foodgrains except Wheat and Paddy / Rice

Rate of Interest: 17.50% per annum for all loans / advances / cash credits overdrafts

No. and Date of Directive	Minimum Margin	Level of Credit	Exemption from Minimum Margin, Level of Credit and Rate of Interest
(1)	(2)	(3)	(4)
(i) DBOD No. Dir. BC. 85 / C. 218-74 dated September 11, 1974. (ii) D.O.No. CPC. 250 /C. 279-79 dated August 7, 1979. (iii) DBOD No. Dir. BC. 50 /C. 96-81 dated May 2, 1981. (iv) DBOD No. Dir. BC. 59 /C 96-81 dated May 19 1981. (v) DBOD No. Dir BC. 60 /C. 96-81 dated May 19, 1981. (vi) DBOD No. Dir. BC. 100 /C. 218-81 dated August 10, 1981. (vii) DBOD No. Dir. BC. 100 /C. 218-82 dated October 26, 1982.	**I. Pulses** (1) 45% on advances against stocks of pulses to processing units /mills. (2) 60% on advances against stocks of pulses to parties other than processing units /mills. (3) 45% on advances against warehouse receipts covering stocks of pulses. II. Other foodgrains (viz. jowar, bajra, maize, barely, ragi, gram and all other foodgrains except wheat and paddy / rice) (1) 45% on advances against stocks of other foodgrains to processing units /mills. (2) 60% on advances to parties other than processing units /mills. (3) 45% on advances against warehouse receipts covering stocks of other foodgrains.	In respect of each party, 100% of the peak level of credit maintained by the party in any of the 3 years (November-October) 1981-82, 1982-83 and 1983-84. **Commodities** Other foodgrains except paddy, rice, and wheat but including coarse grains and pulses. **Exemption** Advances against foodgrains to foodgrains processing units.	**A. States** Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. **B. Public Procurement, Storage and Distribution Agencies** (i) Advances to the Food Corporation of India and State Governments. (ii) Advances to Co-operative Marketing Federations, Central or State Ware-housing Corporations and such other agencies duly appointed as agents for the purpose of food procurement / distribution by the Food Corporation of India/Central or State Governments to the extent of the stock held by them as such agents. (iii) Advances against rationed foodgrains granted to wholesale and retail dealers appointed /licensed by Government and /or operating under statutory rationing /fair

No. and Date of Directive	Minimum Margin	Level of Credit	Exemption from Minimum Margin, Level of Credit and Rate of Interest
(1)	(2)	(3)	(4)
(viii) DBOD No. Dir. BC. 63 /C. 218-84 dated July 17, 1984.			price distribution system in all the States and Union Territories. (iv) Advances to Central and State Government Agencies entrusted with the procurement of pulses at support prices fixed by the Government of India.
(ix) DBOD No. Dir. BC. 32 /C. 96-85 dated March 16, 1985.			
(x) DBOD No. Dir. BC. 42 /C. 218-86 dated April 3, 1986.			**C. Others** (i) Advances against the security of maize and barley to manufacturing units (i.e. industrial users).
(xi) DBOD No. Dir. BC. 57 /C. 218-86 dated May 12, 1986.			(ii) Advances against the security of, or by way of purchase of, demand documentary bills drawn in connection with the movement of other foodgrains. (iii) Advances against high-yielding / hybrid seeds produced under contract with the National Seeds Corporation Ltd., Delhi, or a State Government or which bear the certification of the said Corporation or as the case may be, the concerned State Government or of any certification agencies authorised under the Seeds Act 1966 and seeds notified under Section 5 of the said Act. (iv) Khadi and Village Industries Commission and its associate institutions. (v) Advances granted to Wholesale Consumers' Co-operative Stores and State and National Federations of Consumers' Co-operatives.

No. and Date of Directive	Minimum Margin	Level of Credit	Exemption from Minimum Margin, Level of Credit and Rate of Interest
(1)	(2)	(3)	(4)
			(vi) Advances upto an aggregate limit of Rs. 1 lakh per borrower from all the provisions of the Selective Credit Control subject to the condition that the borrower deals with only one bank.
			D. Exports Pre-shipment credit granted to exporters against the security of other foodgrains on the basis of firm export orders /irrevocable letters of credit and post-shipment credit given in the form of purchase, negotiation or discounting of export bills or advances thereagainst in respect of export of other foodgrains.

Notes: (i) Usance bills arising out of sale of commodities covered under Selective Credit Control should not be discounted by banks. Banks should not open inland L/Cs providing a clause there in which would enable other banks to discount usance bills under the L/Cs.

(ii) No bank shall advance against the security of any of the foodgrains where a ban on trading has been imposed in respect of that foodgrain except to wholesale or retail traders who are authorised by the State Government to deal in that foodgrain and to processing units to the extent to which and the manner in which such processing is allowed by the respective State Governments.

(iii) Warehouse receipts are those issued by Central/State Warehousing Corporations or rural godowns, godowns set up under a Government Scheme and godowns set up by Regulated Market Yards.

(iv) States and categories of advances indicated in column 4 above, though exempted from rate of interest, minimum margin and level of credit prescribed will continue to be governed by other instructions issued prohibiting banks from discounting usance bills, allowing book debts and clean credit facilities, etc. In case of advances mentioned at item C(vi) in column 4 above, however, these instructions will not be applicable.

(v) Where credit limits have been sanctioned against the security of more than one commodity and/or against any other type of security (i.e. composite credit limits), the credit limit against each commodity shall be segregated and the restrictions contained in the directive shall be made applicable to each such segregated limits.

B. INDIGENOUS OILSEEDS (VIZ. GROUNDNUT, RAPESEED/MUSTARDSEED, CASTORSEED AND LINSEED) AND ALL IMPORTED OILSEEDS *

Rate of Interest 17.50% per annum for all loans/advances/cash credit/overdrafts

No. and Date of Directive	Minimum Margin	Level of Credit	Exemption from Minimum Margin, Level of Credit and Rate of Interest
(1)	(2)	(3)	(4)
(i) DBOD No. Dir. BC. 85 /C. 218-74 dated September 11, 1974. (ii) D.O. No. CPC. 250 /C. 279-79 dated August 7, 1979. (iii) DBOD No. Dir. BC. 50 /C. 96-81 dated May 2, 1981. (iv) DBOD No. Dir. BC. 59 /C. 96-81 dated May 19, 1981. (v) DBOD No. Dir. BC. 60 /C. 218-81 dated May 19, 1981. (vi) DBOD No. Dir. BC. 100 /C. 218-81 dated August 10, 1981. (vii) DBOD No. Dir. BC. 100/C. 218-82 dated October 26, 1982. (viii) DBOD No. Dir. BC. 63 /C. 218-84 dated July 17, 1984. (ix) DBOD No. Dir. BC. 32 /C. 96-85 dated March 16, 1985. (x) DBOD No. Dir. BC. 42 /C. 218-86 dated April 3, 1986.	Indigenous Oilseeds (viz. groundnut, rapeseed, mustardseed, castorseed and linseed) and all imported oilseeds. (i) 30% on advances to processing units/ mills. (ii) 45% on advances to parties other than processing units/mills. (iii) 30% on advances against warehouse receipts representing stocks of oilseeds. **Exemption** Advances against all imported oilseeds for a period not exceeding 8 weeks after arrival of the goods in India.	In respect of each party, separate ceiling for each of (i) groundnut, (ii) linseed and (iii) castorseed together; 100% of the peak level of credit maintained by the party in any of the 3 years (November-October), viz., 1981-82, 1982-83 and 1983-84. **Exemption** Advances against imported oilseeds.	**A. States** Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. **B. Public Procurement, Storage and Distribution Agencies** (i) Advances to the Food Corporation of India and the State Trading Corporation against stocks of oilseeds. (ii) Wholesale and retail dealers appointed /licensed by the Government and /or operating under statutory rationing /fair price distribution system in all the States and Union Territories to the extent of the quantum meant for public distribution. (iii) Advances to Central and State Government /Agencies entrusted with the procurement of oilseeds at support prices fixed by the Government of India.

No. and Date of Directive	Minimum Margin	Level of Credit	Exemption from Minimum Margin, Level of Credit and Rate of Interest
(1)	(2)	(3)	(4)
(xi) DBOD No. Dir. BC. 57 / C. 218-86 dated May 12, 1986.			**C. Exports** (i) Credit limits in favour of exporters, against oilseeds, all varieties of cakes in respect of oilseeds meant for exports and extractions of oilseeds in respect of specific firm export contracts and /or against export bills. (ii) Packing credit advances to exporters of HPS groundnut against the security of groundnut to the extent of the value of raw materials required (which should be reasonably assessed) for selecting HPS groundnut covered by the export order even though the value of raw materials exceed the value of the relative export order, provided that such advances to the extent of the value of the residual groundnut shall be adjusted, either by the sale proceeds of the residual groundnut or in cash, as soon as the selection of the HPS groundnut is completed, within 30 days from the date of such advances and the balance in the packing credit account shall be adjusted by the proceeds of the relative export bill. **D. Others** (i) Khadi and Village Industries Commission and its associate institutions.

No. and Date of Directive	Minimum Margin	Level of Credit	Exemption from Minimum Margin, Level of Credit and Rate of Interest
(1)	(2)	(3)	(4)
			(ii) Advances upto an aggregate limit of Rs.1lakh per borrower from all provisions of the Selective Credit Control subject to the condition that the borrower deals with one bank only.
			(iii) Advances granted by way of purchase of demand documentary bills drawn in connection with the movement of commodities covered by the directive.
			(iv) Advances to the Wholesale Consumers' Co-operative Stores and the State and National Federations of Consumers' Co-operatives.
			(v) Advances against high yielding and hybrid seeds used for growing oilseeds under contract with the National Seeds Corporation Ltd., Delhi or a State Government or which bear the certification of the said Corporation or as the case may be, the concerned State Government or of any other agencies authorised under Seeds Act, 1966 and seeds notified under Section 5 of the said Act.

Notes: (i) Banks should refrain from granting additional limits against oilseeds to parties other than Government and Government-supported organisations; even in the case of such organisations, a strict scrutiny on drawals should be mantained.

(ii) Usance bills arising out of sale of commodities covered under Selective Credit Control should not be discounted by banks. Banks should not open inland L/Cs providing a clause therein which would enable other banks to discount usance bills under the L/Cs.

(iii) No bank shall issue, either to a Court or to Government, or any other person, a guarantee on behalf of, or on account of, any importers guaranteeing payment of customs duty and/or import duty, or other levies, payable in respect of import of essential commodities without taking, as security for issue of such guarantees, a cash margin *equivalent to at least one half of the amount payable* under the guarantee. The term "essential commodities" shall mean such commodities as may be specified by the Reserve Bank of India from time to time.

(iv) Warehouse receipts are those issued by Central/State Warehousing Corporations or rural godowns set up under a Government Scheme and godowns set up by Regulated Market Yards.

(v) States and categories of advances indicated in column 4 above, though exempted from rate of interest, minimum margin and level of credit prescribed, will continue to be governed by other instructions issued prohibiting banks from discounting usance bills, allowing book debts and clean credit facilities, etc. In case of advances mentioned at item D(ii) in column 4 above, however, these instructions will not be applicable.

(vi) Where credit limits have been sanctioned against the security of more than one commodity and/or against any other type of security (i.e. composite credit limits), the credit limit against each commodity shall be segregated and the restrictions contained in the directive shall be made applicable to each such segregated limits.

• Annexure B incorporates the errata/additions advised to scheduled commerical banks *vide* Circular DBOD. No.Dir.BC.57/C.218-86 dated May 12, 1986.

C. VEGETABLE OILS (INDIGENOUS OILS VIZ., GROUNDNUT OIL, RAPESEED/ MUSTARD OIL, CASTOR OIL, LINSEED OIL AND VANASPATI AND ALL IMPORTED OILS)*

Rate of Interest : 17.50% per annum for all loans/advances/cash credits/overdrafts

No. and Date of Directive	Minimum Margin	Level of Credit	Exemption from Minimum Margin, Level of Credit and Rate of Interest
(1)	(2)	(3)	(4)
(i) DBOD No. Dir. BC. 85 / C, 218-74 dated September 11, 1974. (ii) DO No. CPC. 250 /C, 279-79 dated August 7, 1979. (iii) DBOD No. Dir. BC. 50 /C, 96-81 dated May 2, 1981. (iv) DBOD No. Dir. BC. 59 /C, 96-81 dated May 19, 1981. (v) DBOD No. Dir. BC. 60 /C, 218-81 dated May 19, 1981. (vi) DBOD No. Dir. BC. 100 /-C, 218-81 dated August 10, 1981. (vii) DBOD No. Dir. BC. 117 / C, 218-81 dated September 17, 1981. (viii) DBOD No. Dir. BC. 23 /C, 218-82 dated March 1, 1982. (ix) DBOD No. Dir. BC. 100 / C, 218-82 dated October 26, 1982.	**Indigenous and imported oils** (i) 30% registered oil mills and vanaspati manufacturers (ii) 60% other than (i) above (iii) 45% against warehouse receipts representing stocks of oils. **Exemptions** (i) Advances to consumers' co-operatives in respect of stocks held under the Centrally Sponsored Scheme for the distribution of essential consumer articles. (ii) Advances against all imported vegetable oils for a period not exceeding 4 weeks after arrival of the goods in India. (iii) Advances granted to vanaspati manufacturers against the security of imported oils used as raw materials by them in the manufacture of vanaspati.	In respect of each party, 100% of level of credit maintained by the party in any of the 3 years (November-October) viz., 1981-82, 1982-83 and 1983-84. **Exemptions** (i) Advances to consumers' co-operatives in respect of stocks held under the Centrally Sponsored Scheme for distribution of essential consumer articles. (ii) Advances against all imported vegetable oils.	**A. States** Advances to all parties in the States of Assam, Arunachal Pradesh, Himachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Orissa and Tripura. **B. Public Procurement, Storage and Distribution Agencies** (i) Advances to the Food Corporation of India and the State Trading Corporation against the stocks of vegetable oils and vanaspati. (ii) Wholesale and retail dealers appointed /licensed by Government and /or operating under statutory rationing /fair price distribution system in all the States and Union Territories to the extent of the quantum meant for public distribution. **C. Exports** (i) Packing credit advances to the exporters of deoiled and /or defatted cakes against the security of oilseeds and /or other raw material to the extent of the value of raw material required for producing cakes covered by the export order, even though the value

No. and Date of Directive	Minimum Margin	Level of Credit	Exemption from Minimum Margin Level of Credit and Rate of Interest
(1)	(2)	(3)	(4)
(x) IECD No. EFD BC. 60/ C. 297(P)83 dated June 20, 1983.			of the raw material exceeds the value of the relative export order, *Provided* Such advances to the extent of the value of by-product oil shall be adjusted by the sale proceeds of the by-product oil or in cash as soon as the oil is extracted but within a period not exceeding 30 days from the date of advance and the balance in the packing credit account shall be adjusted by the proceeds of the relative export bills and advances, if any, against the by-product oil granted in a separate account are exempted for a period of 30 days from the date of such advances.
(xi) DBOD No. Dir. BC. 63 /C. 218-84 dated July 17, 1984.			
(xii) DBOD No. Dir. BC. 32 / C. 96-85 dated March 16, 1985.			
(xiii) DBOD No. Dir. BC. 42 /C. 218-86 dated April 3, 1986.			
(xiv) DBOD No. Dir. BC. 57 /C. 218-86 dated May 12, 1986.			
			(ii) Pre-shipment credit granted to exporters against the security of vegetable oils on the basis of firm export orders /irrevocable letters of credit and post-shipment credit given in the form of purchase, negotiation or discounting of export bills or advances thereagainst in respect of export of vegetable oils.
			D. Others
			(i) Advances by way of purchase of demand documentary bills drawn in connection with the movement of vegetable oils and vanaspati.

No. and Date of Directive	Minimum Margin	Level of Credit	Exemption from Minimum Margin Level of Credit and Rate of Interest
(1)	(2)	(3)	(4)
			(ii) Khadi and Village Industries Commission and its associate institutions.
			(iii) Advances upto an aggregate limit of Rs. 1 lakh per borrower from all provisions of the Selective Credit Controls subject to the condition that borrowers should deal with only one bank.
			(iv) Advances against stocks of oil processed from linseed oil and castor oil for use as industrial raw material by factories.
			(v) Advances against receivables arising out of sale of vegetable oils (including vanaspati) delivered to Army Purchase Organisation and against stocks of vanaspati held by vanaspati manufacturers for being delivered to the Army Purchase Organisation in the Ministry of Food and Agriculture, Government of India, New Delhi and with the prior approval of the Reserve Bank of India; other agencies designated for the purpose by the Central and State Governments, in pursuance of contracts entered into or to be entered into with the said Organisation, by the said manufacturers.

No. and Date of Directive	Minimum Margin	Level of Credit	Exemption from Minimum Margin, Level of Credit and Rate of Interest
(1)	(2)	(3)	(4)
			(vi) Advances to Wholesale Consumers' Co-operative Stores and State and National Federations of Consumers' Co-operatives.
(i) DBOD No. Dir. BC. 73 /C. 218(H)-77 dated June 15, 1977. (ii) DBOD No. Dir. BC. 971-C. 218-79 dated June 29, 1979.	45	Banks should not establish letters of credit on more than 45 days D/A basis, for import of edible oils, as far as possible. In case banks establish letters of credit on more than 45 days' D/A basis, they should stipulate that, after 30 days from the date of arrival of the goods in the port, the importer will deposit with them an amount equivalent to the margin amount which he would have provided under the directives had he availed himself of advances against the commodity. Banks should refrain from granting additional limits against vegetable oils to parties other than Government and Government-supported Organisations; even in the case of such organisations a strict scrutiny on drawals should be maintained.	

Notes: (i) Usance bills arising out of sale of commodities covered under Selective Credit Control should not be discounted by banks. Banks should not open inland L/Cs providing a clause therein which would enable other banks to discount usance bills under the L/Cs.

(ii) No bank shall issue, either to a Court or to Government, or any other persons, a guarantee on behalf of, or on account of, any importers guaranteeing payment of customs duty and/or import duty or other levies, payable in respect of import of essential commodities without taking, as security for issue of such guarantees, a cash margin *equivalent to at least one half of the amount payable* under the guarantee. The term "essential commodities" shall mean such commodities as may be specified by the Reserve Bank of India from time to time.

(iii) States and categories of advances indicated in column 4 above, though are exempted from rate of interest, minimum margin and level of credit prescribed, will continue to be governed by other instructions issued, prohibiting banks from discounting usance bills, allowing book debts and clean credit facilities. In case of advances mentioned at item D(iii) in column 4 above, however, these instructions will not be applicable.

(iv) Where credit limits have been sanctioned against the security of more than one commodity and/or against any other type of security (i.e., composite credit limits), the credit limit against each commodity shall be segregated and the restrictions contained in the directive shall be made applicable to each such segregated limits.

Annexure C incorporates the errata/additions advised to scheduled commercial banks *vide* Circular DBOD.No.Dir.BC.57/C.218-86 dated May 12, 1986.

D. SUGAR, GUR AND KHANDSARI *

Rate of Interest on loans/advances/cash credits/overdrafts

(A) Sugar : (i) 16.50% per annum to 17.50 % per annum for sugar factories in respect of all stocks
(ii) 17.50% per annum for parties other than sugar factories.

(B) Gur and Khandsari : 17.50% per annum.

No. and Date of Directive	Minimum Margin	Exemption from Minimum Margin and Rate of Interest
(1)	(2)	(3)
(i) DBOD No. Dir. BC. 50 /C, 96-81 dated May 2, 1981 (ii) DBOD No. Dir. BC. 8 /C, 218(J)-84 dated January 30, 1984. (iii) DBOD No. Dir. BC. 63 /C, 218-84 dated July 17, 1984. (iv) DBOD No. Dir. BC. 32 /C, 96-85 dated March 16, 1985. (v) DBOD No. Dir. BC. 42 /C, 218-86 dated April 3, 1986. (vi) DBOD No. Dir. BC. 57 /C, 218-86 dated May 12, 1986.	**(1) Advances against sugar** (a) To sugar factories (i) Nil against Buffer stock stipulated by the Government. (ii) 75% on advances to parties manufacturing sugar in respect of such stocks as have been released for sale by the Government and have left the factory or mill premises and on which excise duty has been paid. (iii) 17.5% on advances to parties manufacturing sugar other than those referred to 1(a)(i) and (ii) above. (b) 75% to parties other than sugar factories. (c) 60% on advances against warehouse receipts covering stocks of sugar. **(2) Advances against Gur and Khandsari** (i) 45% on advances to manufacturing units.	**A. Public Procurement, Storage and Distribution Agencies** (i) Advances to Food Corporation of India. (ii) Advances against sugar granted to wholesale and retail dealers appointed /licenced by Government and/or operating under statutory rationing /fair price distribution system in all the States and Union Territories to the extent of quantum of sugar allotted to them by the Government. **B. Exports** Advances granted in respect of stocks of sugar pledged /hypothecated with banks which are intended for export out of India. **C. Others** (i) Advances granted by way of purchase of demand documentary bills drawn in connection with movement of commodities. (ii) Advances granted to industrial users such as confectioneries,

No. and Date of Directive	Minimum Margin	Exemption from Minimum Margin and Rate of Interest
(1)	(2)	(3)
	(ii) 75% on advances to others. (iii) 60% on advances against warehouse receipts covering stocks of gur and khandsari. **Exemption** Advances to Consumers' Co-operatives in respect of stocks held under schemes of public distribution organised by Government.	bakeries, biscuit manufacturers, etc. against stocks of sugar, gur and khandsari pledged /hypothecated with banks. (iii) Khadi and Village Industries Commission and its associate institutions. (iv) Advances upto an aggregate limit of Rs. 1 lakh per borrower from all provisions of the Selective Credit Control subject to the condition that borrowers should deal with only one bank. (v) Advances to Wholesale Consumers' Co-operative Stores or State and National Federations of Consumers Co-operatives.

Notes: (i) Stocks of levy sugar shall be valued at the levy price fixed by Government and the free sale sugar (including buffer stocks) at the average of the price realised in the preceding three months (moving average), or the current market price, whichever is lower. The prices for this purpose shall be exclusive of excise duty.

(ii) Usance bills arising out of sale of commodities covered under Selective Credit Control should not be discounted by banks. Banks should not open inland L/Cs providing a clause therein which would enable other banks to discount usance bills under the L/C.

(iii) No bank shall issue, either to a Court or to Government, or any other person, a guarantee on behalf of, or on account of, any importers guaranteeing payment of customs duty and/or import duty, or other levies, payable in respect of import of essential commodities without taking, as security for issue of such guarantees, a cash margin *equivalent to at least one half of the amount payable* under the guarantee. The term "essential commodities" shall mean such commodities as may be specified by the Reserve Bank of India from time to time.

(iv) Categories of advances indicated in column 3 above, though exempted from rate of interest, minimum margin prescribed will continue to be governed by other instructions issued prohibiting banks from discounting usance bills, allowing book debts and clean credit facilities, etc. In case of advances mentioned at item C(iv) in column 3 above, however, these instructions will not be applicable.

(v) Where credit limits have been sanctioned against the security of more than one commodity and/or against any other type of security (i.e. composite credit limits), the credit limit against each commodity shall be segregated and the restrictions contained in the directive shall be made applicable to each such segregated limits.

* Annexure D incorporates the errata/additions advised to scheduled commerical banks *vide* Circular DBOD.No.Dir.BC.57/C.218-86 dated May 12, 1986.

Chapter VIII

Fiscal Developments*

This Chapter begins with a review of the combined budgetary position of the Central and State Governments followed by a separate analysis of their operations. Later the finances of Railways, Department of Posts, Department of Telecommunications and public debt and other liabilities of the Government are dealt with.

I. COMBINED BUDGETARY POSITION OF CENTRAL AND STATE GOVERNMENTS: 1985-86 AND 1986-87

1985-86

The Central Budget for 1985-86, the first year of the Seventh Five Year Plan, was presented against the background of a sustained growth in agriculture, national income and pick-up in industrial production in an environment marked by the slowing down of the rate of inflation and a further strengthening of the balance of payments position.

The fiscal policy for 1985-86 aimed at improving the environment for industrial growth. In order to initiate a process of fiscal reforms which can be completed in a phased manner in a time-bound framework, a Long-Term Fiscal Policy co-terminous with the Seventh Five Year Plan was announced in December 1985. Following the fiscal reforms initiated in the Budget, collections of major taxes in 1985-86 increased by 22.0 per cent over the previous year which is the highest increase in a decade. As a result of this buoyancy in tax revenue and satisfactory behaviour of other economic indicators including the high level of food stocks, the initial provision of Rs.18,500 crores in the Budget of the Central Plan 1985-86, was subsequently raised by Rs.1,594 crores to Rs.20,094 crores Budgetary support for the Central Plan was stepped up by Rs.1,484 crores over the budget estimate to Rs.13,231 crores. The Central assistance for the State and Union Territory Plans was Rs.7,265 crores in contrast to the budget provision of Rs.6,762 crores. Maximum support was given to programmes designed for benefiting the rural poor.

According to the revised estimates for 1985-86, the combined budgetary deficit of the Central and State Governments was siginificantly lower at Rs. 3667 crores as against Rs.5,183 crores in 1984-85[1] (Table VIII-1). While the Centre's deficit at Rs.4,490 crores was higher by Rs.745 crores in comparison with the previous year, the States had a surplus of Rs.823 crores as against a deficit of Rs.1,438 crores in the previous year. Net Reserve Bank credit to Government (Central and States) also declined by Rs.2,984 crores to Rs.4,442 crores. There was an increase in net RBI credit to the Central Government by Rs.414 crores to Rs.6,469 crores while the States had a credit balance of Rs.2,027 crores with RBI at the end of 1985-86 as against net RBI credit of Rs.1,371 crores at the end of the previous year.

* Figures in this Chapter relate to the fiscal year (April-March).

Table VIII—1: Trends in Budgetary Deficits and Net RBI Credit to Governments

(Rupees crores)

Year	Budgetary Surplus (+) or Deficit (−) *(a)*			Net RBI Credit to Governments *(b)*		
	Centre	States	Total	Centre	States	Total
1.	2.	3.	4.	5.	6.	7.
1971-72	−519	−289	−808	583	287	870
1972-73	−869	−7	−876	1,211	−386	825
1973-74	−328	−226	−554	630	134	764
1974-75	−721	−31	−752	533	134	667
1975-76	−366	75	−291	−288	91	−197
1976-77	−131	50	−81	816	22	838
1977-78	−933	−229	−1,162	−260	142	−118
1978-79	−1,506	1,010	−496	2,191	−419	1,772
1979-80	−2,433	−187	−2,620	2,650	339	2,989
1980-81	−2,577	−897†	−3,474	3,551	487	4,038
1981-82	−1,392	−1,020†	−2,412	3,207	789	3,996
1982-83	−1,656	−820	−2,476	3,368	−860*	2,508*
1983-84	−1,417	−551††	−1,968	3,949	38	3,987
1984-85	−3,745	−1,438+	−5,183	6,055	1,371	7,426
1985-86 (Revised Estimates)	−4,490	+823	−3,667	6,469	−2,027	4,442

(a) For definition, see footnote No. 1 of this Chapter.

(b) Comprising net changes in (i) RBI holdings of Treasury Bills, other Government Securities, Rupee Coins in Issue Department, loans and advances to State Governments and (ii) Government's balances with the RBI so that an increase in cash balances will imply a decline in RBI Credit to Governments and *vice versa*. Data refer to full fiscal year (i.e., from April 1 to March 31) and take into account adjustments made at the time of final closure of Government accounts.

† Figures for Sikkim and Assam for 1980-81 and 1981-82, respectively, relate to Revised Estimates.

†† Figures for Jammu and Kashmir relate to Revised Estimates.

* These disregard changes in components of sources on July 12, 1982, following the reclassification of aggregates necessitated by the establishment of NABARD.

\+ Figures for Jammu and Kashmir and Nagaland relate to Revised Estimates.

Sources: Central and State Budget Documents for budgetary data.

The combined aggregate receipts of the Central and State Governments totalled Rs.79,868 crores in 1985-86 (+ Rs.13,397 crores, + 20.1 per cent)[2] (Table VIII-2). Revenue receipts at Rs.53,556 crores moved up by 18.2 per cent and capital receipts at Rs.26,312 crores by 24.2 per cent in comparison with the previous year. Out of the total increase, 67.1 per cent was due to revenue receipts. The ratio of aggregate receipts (revenue plus capital) to Gross Domestic

Product (GDP) at current market prices was 33.4 per cent in 1985-86 — higher than 31.2 per cent recorded in the previous year

Out of the total revenue receipts of Rs.53,556 crores, tax revenue was Rs.42,372 crores (+ Rs.6,564 crores, + 18.3 per cent) and accounted for 17 7 per cent of the GDP at current market prices as compared with 16.8 per cent in the earlier year. The major portion of the increase, viz., Rs.5,796 crores, was due to taxes on commodities and services which rose by 19.5 per cent over the year. The taxes on income and property at Rs.6,811 crores were also higher by Rs.768 crores recording a rise of 12.7 per cent over the year

In 1985-86, aggregate capital receipts were Rs.26,312 crores (+ Rs:5,137 crores, +24.2 per cent). The collections from small savings (net) were Rs.4,800 crores (+ Rs.1,150 crores, + 31.5 per cent) Market borrowings (net) also rose by Rs.1,268 crores or 26.5 per cent to Rs.6,056 crores.

The combined aggregate disbursements of the Centre and States at Rs.83,535 crores were higher by Rs.11,881 crores or 16.6 per cent than in 1984-85. Developmental expenditure was Rs.53,027 crores (+ Rs.6,762 crores, + 14.6 per cent) and non-developmental expenditure Rs.28,321 crores (+Rs.4,931 crores, +21.1 per cent).

1986-87

The Central Budget for 1986-87 was presented by the Finance Minister to the Lok Sabha on February 28, 1986 against the background of an expected 4.5 per cent to 5.0 per cent growth in national income and a subdued rate of inflation in 1985-86. There had been a distinct improvement in the functioning of the infrastructural sectors. The Budget marked another stage in carrying forward the process of fiscal reforms the details of which are given later.

For the fiscal year 1986-87, the combined deficit of the Central and State Governments after taking into account the yield from Additional Resource Mobilisation (ARM) measures is anticipated to be higher at Rs.3,823 crores as against Rs.3,667 crores in 1985-86. Aggregate receipts of the Central and State Governments are estimated to be Rs.85,456 crores (+ Rs.5,588 crores, + 7.0 per cent)[3]. Total aggregate combined revenue receipts are budgeted at Rs.58,296 crores envisaging a rise of Rs.4,740 crores or 8.9 per cent. Capital receipts would be Rs.27,160 crores (+ Rs.848 crores, + 3.2 per cent). Within revenue receipts, tax receipts are expected to be Rs.47,022 crores anticipating a rise of 11.0 per cent over the previous year's level of Rs.42,372 crores. The combined aggregate disbursements are estimated to be

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1. Budgetary deficit or surplus is measured (A) in the case of Central Government by (i) net increase/decrease in outstanding treasury bills and (ii) withdrawals from/additions to cash balances and (B) in the case of States by the State Budget figures of (i) net increase/decrease in RBI credit in the form of ways and means advances (repayable in 90 days) and overdrafts (repayable within 7 working days), (ii) decline in/addition to cash balances and (iii) net sales/purchases of securities held by States in their Cash Balance Investment Account. According to the books of the RBI, the combined deficit for 1985-86 amounted to Rs.3,453 crores, the deficit of Rs.6,857 crores on the Centre's account being offset by a surplus of Rs.3,404 crores on account of 20 States keeping accounts with the RBI. Data on receipts and disbursements conforming to this figure are not available.

All the figures for 1985-86 are based on revised estimates and those for 1984-85 are accounts, unless otherwise stated.

2. The variations of the revised estimates of 1985-86 over the accounts figures of 1984-85 are given in brackets. The absolute variation is given first followed by the percentage change.

3. The variations of the budget estimates of 1986-87 over the revised estimates of 1985-86 are given in brackets. The absolute variation is given first followed by the percentage change.

Table VIII—2: Combined Receipts and Disbursements of Central and State Governments

(Rupees crores)

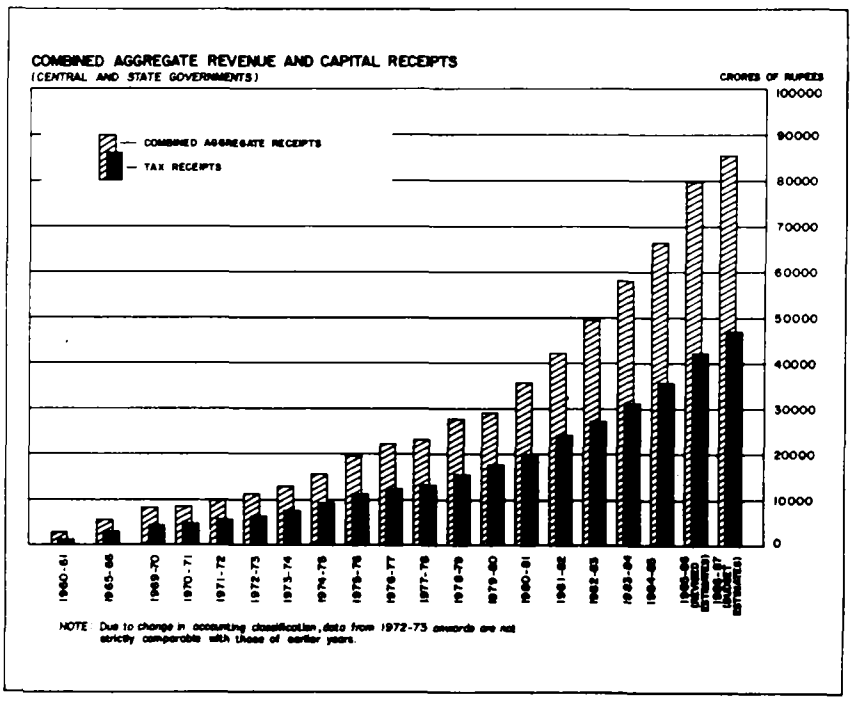
Items	1984-85 (Accounts)	1985-86 (Revised Estimates)		1986-87 (Budget Estimates)†	
	Amount	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year
1.	2.	3.	4.	5.	6.
I. Total Disbursements	**71654**	**83535**	**+16.6**	**89279**	**+6.9**
of which:					
1. Developmental (a+ b+c)	**46265**	**53027**	**+14.6**	**54809**	**+3.4**
(a) Revenue	27676	32647	+18.0	34320	+5.1
(b) Capital	11383	12943	+13.7	13404	+3.6
(c) Loans	7206	7437	+3.2	7085	−4.7
2. Non-Developmental (a + b + c)	**23390**	**28321**	**+21.1**	**32442**	**+14.6**
(a) Revenue	21683	26149	+20.6	29851	+14.2
(b) Capital	1371	1750	+27.6	2161	+23.5
(c) Loans	336	422	+25.6	430	+1.9
II. Total Receipts (A + B)	**66471**	**79868**	**+20.1**	**85456**	**+7.0**
A. Revenue Receipts	**45296**	**53556**	**+18.2**	**58296**	**+8.9**
Of which:					
Tax Receipts (a+b)	35808	42372	+18.3	47022	+11.0
(a) Taxes on Commodities and Services	29765	35561	+19.5	39982	+12.4
(b) Taxes on Income and Property	6043	6811	+12.7	7040	+3.4
B. Capital Receipts	**21175**	**26312**	**+24.2**	**27160**	**+3.2**
Of which:					
(i) Market Borrowings (Gross)	5748	7173	+24.8	7772	+8.4
(ii) Market Borrowings (Net)	4788	6056	+26.5	6425	+6.1
(iii) Small Savings	3650	4800	+31.5	5300	+10.4
(iv) State Provident Funds (Net)	1147	1102	−3.9	1167	+5.9
III. Overall Surplus (+) or Deficit (−) (II-I)	**−5183**	**−3667**		**−3823**	
Financing of Surplus (+) or Deficit (−)					
(i) Increase (+) or Decrease (−) in cash balances of Centre and States	−787	−208		−128	
(ii) Increase (−) or Decrease (+) in Treasury Bills of Centre	−3696	−4053		−3650	
(iii) Withdrawals from (−) or additions to (+) Cash Balance Investment Accounts of States (net)	+54	−33		+10	
(iv) Increase (−) or Decrease (+) in Ways and Means Advances and Overdrafts from the RBI to States (net)	−754	+627		−55	

† Including effects of budget proposals and excluding Post-Budget tax concessions in respect of Government of India Budget.

Notes: Data do not cover Union Territories. Data in respect of States relate to 21 final budgets and one interim budget for Jammu and Kashmir. Figures for Nagaland and Jammu and Kashmir for 1984-85 relate to Revised Estimates.

Source: Budgets of Central and State Governments

Rs.89,279 crores (+ Rs.5,744 crores, + 6.9 per cent). Developmental expenditure is budgeted at Rs.54,809 crores which means a rise of 3.4 per cent only. Non-developmental expenditure, on the other hand, is anticipated to be Rs.32,442 crores rising by 14.6 per cent.



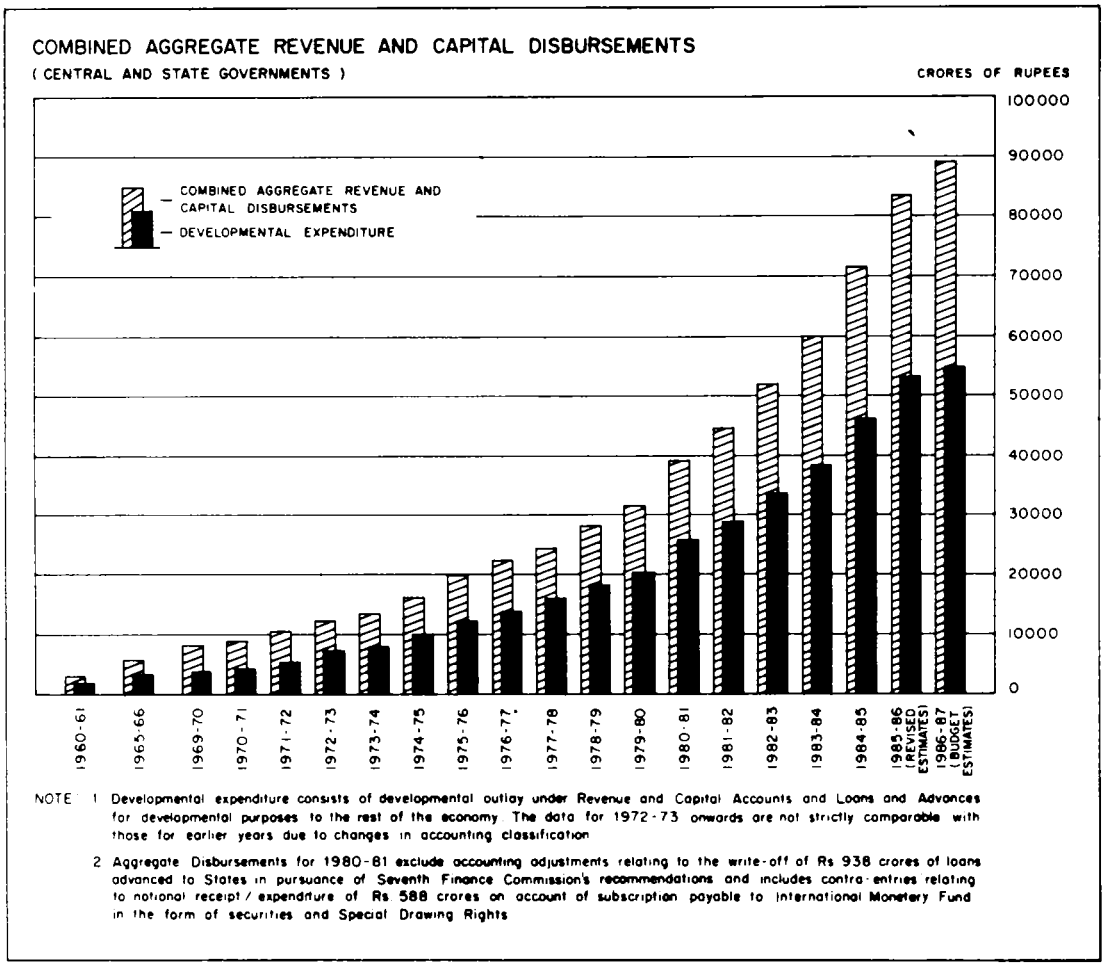
BUDGETARY OPERATIONS OF THE CENTRAL GOVERNMENT

Central Finances : 1985-86 [4]

According to the revised estimates for 1985-86, aggregate receipts amounted to Rs.52,632 crores and aggregate disbursements Rs.57,122 crores leaving a deficit of Rs.4,490 crores — a rise of 35.4 per cent compared with Rs.3,316 crores in the budget estimates. The deficit in 1985-86 was higher by Rs.745 crores over the amount of Rs.3,745 crores in 1984-85. The higher deficit was incurred despite a large spurt in aggregate receipts due to the higher outlays on account of the Central and State Plans, additional provision made for interim relief, liberalised *ad hoc* bonus, pensionary benefits and additional dearness allowance sanctioned to Government employees, substantial increase on account of food and fertiliser subsidies and large expenditure on defence and interest payments.

4. In this section all references to 1985-86 are based on the revised estimates unless stated otherwise. The figures within brackets relate to variations over the accounts figures of 1984-85. The absolute variation is given first followed by the percentage change.

Aggregate receipts for 1985-86 amounted to Rs.52,632 crores (+Rs.10,480 crores, +24.9 per cent). Revenue receipts aggregated Rs.29,021 crores (+Rs.4,637 crores, +19.0 per cent). Under revenue receipts, tax revenue totalled Rs.20,979 crores (+Rs.3,285 crores, +18.6 per cent). The increase in tax revenue was due to higher collections under Customs Duties (+Rs.2,256 crores), Union Excise Duties (+Rs.669 crores) and Corporation Tax (+Rs.562 crores). Non-tax revenue receipts at Rs.8,042 crores also moved up by Rs.1,352 crores or 20.2 per cent. The major contributory factors for the rise in non-tax revenue were: Interest Receipts (+Rs.839 crores), Economic Services (+Rs.338 crores), General Services (+Rs.199 crores) and Dividends and Profits (+Rs.71 crores). However, the higher receipts were partly offset by a decline under the head 'Fiscal Services' (−Rs.114 crores).



NOTE: 1 Developmental expenditure consists of developmental outlay under Revenue and Capital Accounts and Loans and Advances for developmental purposes to the rest of the economy. The data for 1972-73 onwards are not strictly comparable with those for earlier years due to changes in accounting classification.

2 Aggregate Disbursements for 1980-81 exclude accounting adjustments relating to the write-off of Rs 938 crores of loans advanced to States in pursuance of Seventh Finance Commission's recommendations and includes contra-entries relating to notional receipt / expenditure of Rs 588 crores on account of subscription payable to International Monetary Fund in the form of securities and Special Drawing Rights.

Capital receipts aggregated Rs.23,611 crores (+Rs.5,842 crores, +32.9 per cent). Under capital receipts, the following items recorded increases: Internal Market Loans (Net) (+Rs.1,004 crores), External Loans (Net) (+Rs.479 crores), Small Savings (+Rs.1,150 crores), Recoveries of Loans and Advances (+Rs.703 crores), Special Deposits of Non-Government Provident Funds (+ Rs.468 crores), and 'Other Receipts' (Net) which include National Deposit Scheme (+Rs.171 crores), deposits of U.S. Rupee Balances, Reserve Funds other than Railway Reserve Funds, Special securities issued to I.M.F., I.B.R.D., A.D.B., I.D.A., National Rural Development Bonds, etc. (+Rs.2,269 crores). These increases were partly offset by a decrease in receipts from Railway Reserve Funds (−Rs.129 crores) and Deposits of L.I.C., G.I.C., etc. (−Rs.193 crores).

Aggregate disbursements during 1985-86 amounted to Rs.57,122 crores (+Rs.11,225 crores, +24.4 per cent). Revenue expenditure aggregated Rs.34,961 crores (+Rs.7,080 crores, +25.4 per cent) and capital disbursements Rs.22,161 crores (+Rs.4,145 crores, +23.0 per cent).

The rise in revenue expenditure was contributed both by developmental expenditure (+Rs.3,056 crores) and non-developmental expenditure (+Rs.4,024 crores). Under developmental revenue expenditure, the important items accounting for the rise were: Social and Community Services (+Rs.681 crores), Economic Services (+Rs.1,119 crores) and Grants-in-aid to States and Union Territories for developmental purposes (+Rs.1,253 crores). The major contributory items for the rise in non-developmental revenue expenditure were: Interest Payments (+Rs.1,365 crores), Currency, Coinage and Mint and other General Services (+Rs.906 crores), Grants-in-aid to State and Union Territory Governments for non-developmental purposes (+Rs.760 crores) and Defence Expenditure (+Rs.517 crores).

Under capital disbursements, developmental capital outlay was Rs.7,724 crores (+Rs.1,129 crores, +17.1 per cent). Non-developmental capital outlay at Rs.1,581 crores was higher by Rs.338 crores or 26.4 per cent. Disbursements under Loans and Advances at Rs.12,856 crores registered a rise of Rs.2,683 crores or 26.4 per cent over the disbursements in the preceding year. A major part of the rise under developmental capital outlay was contributed by the Economic Services (+Rs.942 crores, +15.1 per cent). Under non-developmental capital outlay, defence outlay recorded a rise of Rs.209 crores while outlay on 'Others' comprising General Services like India Security Press, Currency, Coinage and Mint, etc., at Rs.635 crores rose by Rs.124 crores.

Long-Term Fiscal Policy (LTFP)

The Budget for 1985-86 had indicated the Government's intention to formulate a Long-Term Fiscal Policy (LTFP) co-terminous with the Seventh Five Year Plan. The Policy which was announced in December 1985, aims at creating an environment conducive to rapid growth in production and employment, so that the burden of poverty can be progressively reduced. It proposes (i) to increase the share of direct taxes in total tax revenue over time and take measures to curb evasion so that the fiscal system as a whole becomes even more progressive, (ii) to continue to assist in the efforts to make the incidence of the indirect tax system progressive, both through low tax rates on essential commodities and through susbsidised distribution of foodgrains, edible oils and sugar through the public distribution system, (iii) to take a hard look at the structure of taxes and assess the directions in which the country must move forward with reforms to further the basic objectives of growth and social justice while at the same time ensuring that there is no significant revenue loss and (iv) to control the pace of implementation of reforms with a view to taking into account possible dislocations to the existing structure of production, which has evolved in response to past economic policies. Given the high priority of keeping inflation under firm control, non-inflationary financing of the Plan will require progressively more reliance on surpluses generated by the budget and public sec-

tor undertakings and correspondingly diminished recourse to borrowed funds. This is an essential component of the LTFP.

Pattern of Expenditure and Receipts for 1986-87 — Budget Estimates

In order to maintain the momentum of investment in the core public sector and accelerate the implementation of anti-poverty programmes, the outlay for the Central Plan for 1986-87 is fixed at Rs.22,300 crores as against Rs.20,094 crores in 1985-86. Taking the first two years together, 40 per cent of the Seventh Five Year Plan outlay in real terms (at 1984-85 prices) has been provided for. The budgetary support to the Central Plan for 1986-87 is estimated higher by Rs.386 crores at Rs.13,617 crores. The total Plan outlay of States and Union Territories has been fixed at Rs.16,752 crores as against Rs.12,145 crores in the previous year. The Central assistance for the Plans for the States and Union Territories at Rs.7,378 crores is also higher by Rs.113 crores as compared to the last year's assistance of Rs.7,265 crores. The total Plan outlay of the Centre, States and Union Territories is projected at Rs.39,052 crores constituting an increase of Rs.6,813 crores or 21.1 per cent over the approved Plan outlay of Rs.32,239 crores for 1985-86. The Central budgetary support for Annual Plans of 1986-87 of the Centre, States and Union Territories taken together will aggregate Rs.20,995 crores. As regards sectoral priorities, there is a large percentage increase in the allocation for poverty alleviation programmes. Other areas where the Plan outlay is stepped up considerably are development of human resources and coal, power and transport sectors. The implementation of the 20-Point Programmes will gain further momentum. Compared with Rs.4,900 crores in 1985-86, the outlay for this Programme in the Central Plan will be Rs.5,998 crores — an increase of Rs.1,098 crores or 22.4 per cent.

Aggregate disbursements of the Central Government in 1986-87 at Rs.59,947 crores are anticipated to rise by Rs.2,825 crores or 4.9 per cent from Rs.57,122 crores in the previous year. Aggregate receipts inclusive of net additional resource mobilisation of Rs.445 crores for the Centre are expected to reach a level of Rs.56,297 crores as compared with the revised estimates of Rs.52,632 crores in the preceding year (+Rs.3,665 crores, +7.0 per cent)[5]. As a result, the budgetary deficit would be Rs.3,650 crores as against Rs.4,490 crores in 1985-86.

The rise in aggregate disbursements is accounted by the higher revenue expenditure of Rs.38,274 crores as against Rs.34,961 crores in the preceding year (+Rs.3,313 crores, +9.5 per cent) which is partly offset by a decline in capital disbursements estimated at Rs.21,673 crores as compared with Rs.22,161 crores in the earlier year (−Rs.488 crores, −2.2 per cent). Total developmental expenditure anticipated at Rs.34,553 crores would be more by Rs.861 crores or 2.6 per cent while the rise in respect of non-developmental expenditure would be much higher by Rs.1,964 crores or 8.4 per cent compared with the position in 1985-86. As a proportion to aggregate disbursements, developmental expenditure would constitute 57.6 per cent as against 59.0 per cent in the preceding year. Correspondingly, non-developmental expenditure is expected to move up from 41.0 per cent in 1985-86 to 42.4 per cent in 1986-87.

Of the total increase of Rs.3,313 crores in revenue expenditure, Rs.2,454 crores is under non-developmental expenditure which is placed at Rs.22,451 crores as against Rs.19,996 crores in the preceding year. Developmental expenditure at Rs.15,823 crores is anticipated to rise by Rs.858 crores or 5.7 per cent from Rs.14,965 crores in the preceding year. The main items accounting for the rise in non-developmental expenditure are: (i) Interest Payments (+Rs.1,506 crores), (ii) Administrative Services (+Rs.314 crores) and (iii) Defence Expenditure (+Rs.714 crores). The rise is partly offset by a decline in Grants-in-aid to State and Union Territory Governments for non-developmental purposes (−Rs.137

5. The figures in brackets relate to variation over the revised estimates of 1985-86; the absolute variations are followed by percentage changes.

crores). Within developmental expenditure, major items contributing to the rise are: (i) Social and Community Services (+Rs.212 crores), (ii) Economic Services (+Rs.210 crores) and (iii) Grants-in-aid to State and Union Territory Governments for developmental purposes (+Rs.433 crores).

Total capital disbursements are estimated at Rs.21,673 crores against Rs.22,161 crores in the previous year. Both developmental and non-developmental capital outlays at Rs.7,736 crores and at Rs.1,946 crores, respectively, are budgeted higher by Rs.13 crores and Rs.365 crores, respectively, while loans and advances of the Centre at Rs.11,991 crores are lower as compared with a level of Rs.12,856 crores in the preceding year (−Rs.865 crores, −6.7 per cent). Within developmental capital outlay, the rise is accounted for by Social and Community Services (+Rs.199 crores) and General Services (+Rs.3 crores) which is partly offset by a decline in outlay on Economic Services (−Rs.189 crores). Under non-developmental capital outlay, the provision for Defence at Rs.1,098 crores is higher by Rs.152 crores while that for 'Others' comprising outlay on General Services like India Security Press, Currency, Coinage and Mint, etc., at Rs.848 crores is higher by Rs.213 crores. Loans and advances to State and Union Territory Governments at Rs.8,288 crores and Other Loans and Advances at Rs.3,703 crores show declines of Rs.698 crores and Rs.167 crores, respectively.

Revenue receipts are expected to be Rs.31,400 crores as compared with Rs.29,021 crores in the previous year (+Rs.2,379 crores, +8.2 per cent). Tax receipts at Rs.22,735 crores would show a rise over the preceding year's figure of Rs.20,979 crores (+Rs.1,756 crores, +8.4 per cent) while non-tax receipts at Rs.8,665 crores would be higher by Rs.623 crores or 7.7 per cent. Of the total rise of Rs.1,756 crores in tax revenue, the major portion of the increase is anticipated from Customs Duties (+Rs.1,111 crores, +12.0 per cent) and Union Excise Duties (+Rs.623 crores, +8.5 per cent). Under non-tax revenue, Rs.719 crores more would come from Interest Receipts and Rs.31 crores more from Fiscal Services, which will be partly offset by a decline in receipts from Dividends and Profits and Cash Grants from Foreign Countries and International Organisations. During the year, revenue receipts are estimated to constitute 55.8 per cent of the aggregate receipts compared with 55.1 per cent in the preceding year.

Capital receipts in 1986-87 budgeted at Rs.24,897 crores or 44.2 per cent of the total receipts are expected to be higher by Rs.1,286 crores or 5.4 per cent over the preceding year's level of Rs.23,611 crores. The major items contributing to the rise are: Internal Market Borrowings — Rs.5,300 crores (net) (+Rs.200 crores), External Loans −Rs.2,516 crores (net) (+Rs.522 crores), Small Savings −Rs.5,300 crores (+Rs.500 crores), Recoveries of Loans and Advances −Rs.4,781 crores (+Rs.349 crores) and Other Receipts −Rs.5,027 crores (net) (+Rs.28 crores). The rise is partly offset by a decline in Special Borrowings from RBI against Compulsory Deposits (net) (−Rs.445 crores).

Economic and Functional Classification of the Central Government Budget

The budget documents like the Annual Financial Statement and Demands for Grants are designed to present accounts in such a manner as to facilitate Parliamentary control, administrative accountability and booking and auditing of transactions. The economic transactions of Government have far-reaching implications for the working of the economy, particularly in a context where the public sector plays an important role. In order to understand their impact on the economy there is a need to have an economic classification of the budgetary transactions arranging the expenditures and receipts of the Central Government by significant economic categories distinguishing current from capital outlays, spending for goods and services from transfers to individuals and institutions, tax receipts by kind from other receipts and from borrowings and inter-Governmental loans and transactions, etc. Since 1957-58 the Ministry of Finance has been preparing

an economic classification of the Central Budget.

There is also a need for a functional classification of the Budget to analyse how much the Centre is allocating to different functions or purposes in accordance with the priorities laid down in the Plan. This is necessary since, with the advent of economic planning in the country, the annual Plan outlays have been integrated with the budgetary outlays. Accordingly the Central Government has been bringing out an economic-cum-functional classification of its transactions from 1967-68 onwards.

In the following paragraphs an analysis is made of the economic and functional classification of the Central transactions during 1985-86 and those proposed for 1986-87.

1985-86

Economic Classification

The Centre incurred an aggregate expenditure of Rs.54,303 crores in 1985-86 (+Rs. 10,424 crores, +23.8 per cent) against Rs.43,879 crores in the previous year (+Rs.7,891 crores, +21.9 per cent)[6]. The economic classification of the expenditure is presented in Table VIII-3. Final outlays constituted 29.8 per cent and financial resources provided to the rest of the economy 70.2 per cent in 1985-86 in comparison with 30.9 per cent and 69.1 per cent, respectively, in 1984-85. The rise in the proportion of the transfer of resources to the rest of the economy noted above was due to the outlay on this item rising by 25.7 per cent over that in 1984-85 in contrast to a rise of 19.5 per cent in final outlays. Total financial resources provided to States and Union Territories at Rs. 15,019 crores were higher by Rs.4,355 crores or 40.8 per cent. Of these, those meant for capital formation were Rs. 10,285 crores (+ Rs.3,090 crores, + 42.9 per cent) while for purposes other than capital formation were Rs.4,734 crores (+ Rs.1,265 crores, + 36.5 per cent). Transfers to other sectors (other than States and Union Territories) at Rs.23,094 crores were higher by Rs.3,430 crores or 17.4 per cent. The increase in transfer payments meant for other sectors was in interest payments (+ Rs. 1,184 crores), grants (+ Rs.356 crores), other current transfers (+ Rs.819 crores) and capital transfers (+ Rs.46 crores). It was to some extent offset by a decline in loans for capital formation (– Rs.45 crores) and other loans (– Rs.30 crores).

The increase of Rs.2,639 crores in final outlays in 1985-86 was shared both by consumption expenditure and gross capital formation. Consumption expenditure at Rs. 11,280 crores was higher by Rs. 1,852 crores or 19.6 per cent and the rise was accounted for by wages and salaries (+ Rs.707 crores, + 15.8 per cent) and commodities and services (+ Rs. 1,145 crores, + 23.2 per cent). The rise in gross capital formation was by Rs.787 crores or 19.1 per cent. Of the rise of Rs.787 crores, gross fixed capital formation accounted for Rs.808 crores which was somewhat offset by a decline in expendiure on works stores by Rs.21 crores.

Total expenditure on capital formation (both direct and indirect) in 1985-86 aggregated Rs.22,321 crores and constituted 41.1 per cent of the total expenditure as compared with Rs. 17,551 crores or 40.0 per cent, respectively, in the previous year. Expenditure for capital formation recorded a rise of Rs.4,770 crores or 27.2 per cent in 1985-86 against an increase of Rs.2,849 crores or 19.4 per cent in the previous year. While the increase in direct capital formation expenditure was Rs.787 crores or 19.1 per cent, that in assistance provided for the same purpose to the rest of the economy was Rs.3,983 crores or 29.7 per cent. Expenditure for purposes other than capital formation increased in 1985-86 by 21.5 per cent (+ Rs.5,654 crores) as against 23.7 per cent (+ Rs.5,042 crores) in the previous year.

6. Total expenditure given in the Economic and Functional Classification is lower than the budgetary expenditure given in the earlier paragraphs mainly because the former does not include current expenditure of the departmental commercial undertakings, their interest payments and net transfer of funds. Figures given in the earlier paragraphs relating to budgetary expenditure exclude only the current expenditure of Railways, Posts and Telecommunications and their interest payments but include current expenditure of other departmental commercial undertakings.

Data relate to the revised estimates of 1985-86 and accounts figures of 1984-85. The variations are given in brackets with plus or minus sign as the case may be.

Table VIII—3: Economic Classification of Total Budgetary Expenditure of the Central Government

(Rupees crores)

Items	1984-85 (Accounts)	Per cent variation over the previous year	1985-86 (Budget Estimates)	Per cent variation over the previous year	1985-86 (Revised Estimates)	Per cent variation over the previous year	1986-87 (Budget Estimates)	Per cent variation over the previous year
1.	2.	3.	4.	5.	6.	7.	8.	9.
I. Total Expenditure (A+B)	**43,879**	**+21.9**	**49,181**	**+12.1**	**54,303**	**+23.8**	**58,033**	**+6.9**
	(100.0)		**(100.0)**		**(100.0)**		**(100.0)**	
A. Final Outlays (a + b)	**13,551**	**+18.0**	**15,452**	**+14.0**	**16,190**	**+19.5**	**18,328**	**+13.2**
	(30.9)		**(31.4)**		**(29.8)**		**(31.6)**	
(a) Comsumption Expenditure	9,428	+16.0	10,980	+16.5	11,280	+19.6	12,438	+10.3
	(21.5)		(22.3)		(20.8)		(21.4)	
(b) Gross Capital Formation	4,123	+22.8	4,472	+8.5	4,910	+19.1	5,890	+20.0
	(9.4)		(9.1)		(9.0)		(10.2)	
B. Financial Resources Provided to the Rest of the Economy (a + b)	**30,328**	**+23.8**	**33,729**	**+11.2**	**38,113**	**+25.7**	**39,705**	**+4.2**
	(69.1)		**(68.6)**		**(70.2)**		**(68.4)**	
(a) For Capital Formation (i + ii)	13,428	+18.3	14,982	+11.6	17,411	+29.7	17,708	+1.7
	(30.6)		(30.5)		(32.1)		(30.5)	
(i) To States and Union Territories	7,195	+20.4	8,828	+22.7	10,285	+42.9	10,579	+2.9
	(16.4)		(18.0)		(19.0)		(18.2)	
(ii) To Others*	6,233	+16.0	6,154	−1.3	7,126	+14.3	7,129	Neg.
	(14.2)		(12.5)		(13.1)		(12.3)	
(b) For purposes other than Capital Formation (i + ii)	16,900	+28.5	18,747	+10.9	20,702	+22.5	21,997	+6.3
	(38.5)		(38.1)		(38.1)		(37.9)	
(i) To States and Union Territories	3,469	+20.9	4,274	+23.2	4,734	+36.5	4,439	−6.2
	(7.9)		(8.7)		(8.7)		(7.6)	
(ii) To Others*	13,431	+30.6	14,473	+7.8	15,968	+18.9	17,558	+10.0
	(30.6)		(29.4)		(29.4)		(30.3)	
II. Total Expenditure for Capital Formation	**17,551**	**+19.4**	**19,455**	**+10.8**	**22,321**	**+27.2**	**23,598**	**+5.7**
	(40.0)		**(39.6)**		**(41.1)**		**(40.7)**	
III. Total Expenditure for purposes other than Capital Formation	**26,328**	**+23.7**	**29,726**	**+12.9**	**31,982**	**+21.5**	**34,435**	**+7.7**
	(60.0)		**(60.4)**		**(58.9)**		**(59.3)**	

Note: Figures in brackets represent percentages to total expenditure.

* Comprises non-departmental commercial undertakings, local authorities, foreign governments, etc.

Neg: Negligible.

Sources: Economic and Functional Classification of the Central Government Budget, 1985-86 and 1986-87.

Functional Classification

Developmental expenditure of the Central Government at Rs.32,145 crores in 1985-86, recorded a rise of 22.3 per cent or Rs.5,869 crores over the year and constituted 59.2 per cent of the total expenditure. In the preceding year it recorded a rise of 24.6 per cent and accounted for 59.9 per cent of the total expenditure (Table VIII-4). The increase in expenditure on Social Services was 26.5 per cent in comparison with 23.7 per cent in 1984-85. Expenditure on Economic Services at Rs.28,144 crores recorded a lower percentage increase of 21.8 per cent against 24.8 per cent in 1984-85.

Table VIII—4: Functional Classification of the Central Government's Total Expenditure

(Rupees crores)

Items	1984-85 (Accounts)		1985-86 (Budget Estimates)		1985-86 (Revised Estimates)		1986-87 (Budget Estimates)	
	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year	Amount	Per cent variation over the previous year
1.	2.	3.	4.	5.	6.	7.	8.	9.
Total Expenditure (A+B)	**43,879**	**+21.9**	**49,181**	**+12.1**	**54,303**	**+23.8**	**58,033**	**+6.9**
	(100.0)		**(100.0)**		**(100.0)**		**(100.0)**	
A. Developmental Expenditure (i + ii)	**26,276**	**+24.6**	**28,451**	**+8.3**	**32,145**	**+22.3**	**33,587**	**+4.5**
	(59.9)		**(57.8)**		**(59.2)**		**(57.9)**	
(i) Social Services	3,162	+23.7	3,247	+2.7	4,001	+26.5	4,651	+16.2
	(7.2)		(6.6)		(7.4)		(8.0)	
(ii) Economic Services*	23,114	+24.8	25,204	+9.0	28,144	+21.8	28,936	+2.8
	(52.7)		(51.2)		(51.8)		(49.9)	
B. Non-Developmental Expenditure (i + ii)	**17,603**	**+18.1**	**20,730**	**+17.8**	**22,158**	**+25.9**	**24,446**	**+10.3**
	(40.1)		**(42.2)**		**(40.8)**		**(42.1)**	
(i) General Services	8,967	+11.3	10,465	+16.7	10,876	+21.3	12,082	+11.1
	(20.4)		(21.3)		(20.0)		(20.8)	
(ii) Unallocable	8,636	+26.0	10,265	+18.9	11,282	+30.6	12,364	+9.6
	(19.7)		(20.9)		(20.8)		(21.3)	

Note: Figures in brackets are percentages to total expenditure.

* Include block grants and loans.

Sources: Economic and Functional Classification of the Central Government Budget, 1985-86 and 1986-87.

Non-developmental expenditure during 1985-86 was Rs.22,158 crores (+ Rs.4,555 crores, + 25.9 per cent) against Rs.17,603 crores in 1984-85 (+ Rs.2,699 crores, + 18.1 per cent). It constituted 40.8 per cent of the total expenditure as against 40.1 per cent in the previous year. Expenditure on General Services, which includes civil and defence expenditure and non-Plan grants and loans to States and Union Territories for natural calamities was Rs.10,876 crores recording a higher rise of Rs.1,909 crores or 21.3 per cent as against

Rs.8,967 crores in 1984-85 when it had registered a rise of 11.3 per cent over the preceding year. Of the rise of Rs.1,909 crores, defence accounted for Rs.1,189 crores,consumption expenditure other than defence Rs.467 crores and non-consumption expenditure Rs.253 crores. The growth in unallocable expenditure also was significantly higher. At Rs.11,282 crores such expenditure showed a rise of 30.6 per cent in contrast to Rs.8,636 crores in 1984-85 — a rise of 26.0 per cent over 1983-84. The unallocable items include statutory grants-in-aid to States, non-Plan grants to Union Territories, food and other consumer subsidies, interest on public debt, pensions and aid to foreign countries. Increased provisions for interest payments (+ Rs.1,184 crores), subsidies (+ Rs.655 crores) and grants to States and Union Territories (+ Rs.543 crores) were major items accounting for the rise in 'unallocable' expenditure in 1985-86.

The provision of Rs.22,062 crores for capital formation for developmental purposes in 1985-86 accounted for a share of 68.6 per cent in total developmental expenditure. In 1984-85 the relative amount was Rs.17,369 crores forming 66.1 per cent of the total developmental expenditure. (Table VIII-5)

Table VIII—5: Provision for Capital Formation

(Rupees crores)

Items	1984-85 (Accounts)	1985-86 (Budget Estimates)	1985-86 (Revised Estimates)	1986-87 (Budget Estimates)	Per cent variation	
					Col.4 over Col.2	Col.5 over Col.4
1.	2.	3.	4.	5.	6.	7.
I. Total Provision for Capital Formation (A+B)	**17,551**	**19,455**	**22,321**	**23,598**	**+27.2**	**+5.7**
A. Developmental (1 to 3)	**17,369**	**19,206**	**22,062**	**23,289**	**+27.0**	**+5.6**
1. Social Services	1,206	972	1,568	1,813	+30.0	+15.6
2. Economic Services (a to d)	12,619	13,370	15,475	16,363	+22.6	+5.7
(a) Agriculture	1,183	1,282	1,310	1,462	+10.7	+11.6
(b) Industry	5,833	5,965	6,916	6,857	+18.6	−0.9
(c) Transport and Communication	3,223	3,334	3,803	4,530	+18.0	+19.1
(d) Other Economic Services	2,380	2,789	3,446	3,514	+44.8	+2.0
3. Block Grants and Loans	3,544	4,864	5,019	5,113	+41.6	+1.9
B. Non-Developmental (1+2)	**182**	**249**	**259**	**309**	**+42.3**	**+19.3**
1. General Services	182	249	259	309	+42.3	+19.3
2. Unallocable	—	—	—	—	—	—
II. Total Developmental Expenditure	**26,276**	**28,451**	**32,145**	**33,587**	**+22.3**	**+4.5**
III. Total Expenditure	**43,879**	**49,181**	**54,303**	**58,033**	**+23.8**	**+6.9**
IV. I A as per cent of II	**66.1**	**67.5**	**68.6**	**69.3**		
V. I as per cent of III	**40.0**	**39.6**	**41.1**	**40.7**		

Sources: Economic and Functional Classification of the Central Government Budget, 1985-86 and 1986-87.

1986-87

Economic Classification

The total expenditure of the Central Government is expected to rise to Rs.58,033 crores in 1986-87 (+Rs.3,730 crores, +6.9 per cent).[7] This would be lower than the increase of Rs.10,424 crores or 23.8 per cent in 1985-86 (Table VIII-3). The deceleration in total expenditure is accounted for to a large extent by financial resources provided to the rest of the economy. This may be seen from the fact that this item of expenditure would rise by only Rs.1,592 crores or 4.2 per cent in 1986-87 in comparison with an increase of Rs.7,785 crores or 25.7 per cent in 1985-86. As a consequence its share in total expenditure would decline to 68.4 per cent from 70.2 per cent in 1985-86. Final outlays would grow by 13.2 per cent as against 19.5 per cent in the last year. Their share in total expenditure would rise from 29.8 per cent in 1985-86 to 31.6 per cent in 1986-87. Consumption expenditure is anticipated to grow to Rs.12,438 crores at a somewhat lower rate (+Rs.1,158 crores, +10.3 per cent) as against Rs.11,280 crores in the preceding year (+Rs.1,852 crores, +19.6 per cent). Of the rise of Rs.1,158 crores in consumption expenditure, Rs.318 crores or 27.5 per cent would be accounted for by wages and salaries while the remaining amount of Rs.840 crores would be due to commodities and services. Of the increase of Rs.980 crores in gross capital formation, Rs.953 crores would be on account of gross fixed capital formation and the remaining increase of Rs.27 crores due to expenditure on works stores. Gross capital formation under final outlays is budgeted to be Rs.5,890 crores rising at a marginally higher rate of 20.0 per cent over Rs.4,910 crores in the preceding year (+Rs.787 crores, +19.1 per cent). Financial assitance provided for capital formation is anticipated to be Rs.17,708 crores recording a lower rate of rise of 1.7 per cent (+29.7 per cent in 1985-86) while transfers for purposes other than capital formation would be Rs.21,997 crores showing a growth of 6.3 per cent (+22.5 per cent in 1985-86). The total transfer of resources to States and Union Territories is budgeted at Rs.15,018 crores — a decline of Rs.1 crore as against a rise of Rs.4,355 crores or 40.8 per cent in the preceding year. The provision made for transfer of resources to 'Others' is Rs.24,687 crores envisaging a rise of Rs.1,593 crores or 6.9 per cent (+Rs.3,430 crores, +17.4 per cent) in the preceding year. The rise in transfer payments for 'Others' in 1986-87 is on account of interest payments (+Rs.1,409 crores), grants (+Rs.237 crores) and captial transfers (+Rs.116 crores). It would be partly offset by a decline in transfer payments on account of other current transfers (−Rs.202 crores), loans for capital formation (−Rs.78 crores) and other loans (−Rs.112 crores).

The total provision for capital formation amounting to Rs.23,598 crores is expected to show a rise of Rs.1,277 crores or 5.7 per cent over the preceding year. It is much lower than the increase of Rs.4,770 crores or 27.2 per cent recorded in 1985-86. It would constitute 40.7 per cent of the total expenditure in 1986-87 as against 41.1 per cent in the earlier year.

Functional Classification

At Rs.33,587 crores developmental expenditure in 1986-87 is expected to grow at a lower rate of 4.5 per cent (+Rs.1,442 crores) against a higher rise of 22.3 per cent (+Rs.5,869 crores) in 1985-86 (Table VIII-4). At this level, it would form 57.9 per cent of the total expenditure while in the previous year it constituted 59.2 per cent. Of the rise of Rs.1,442 crores in developmental expenditure, expenditure on Social Services budgeted at Rs.4,651 crores would show a rise of Rs.650 crores and the expenditure on Economic Services at Rs.28,936 crores would account for the remaining rise of Rs.792 crores.

Non-developmental expenditure is expected to be Rs.24,446 crores in 1986-87 increasing at a lower rate of 10.3 per cent (+Rs.2,288 crores) as compared with Rs.22,158 crores in the preceding year when it registered a higher rise of

7 The data for 1986-87 are budget estimates. Those for 1985-86 and 1984-85 relate to revised estimates and accounts, respectively.

25.9 per cent (+Rs.4,555 crores) over the position in 1984-85. At this level, it would form 42.1 per cent of the total expenditure as against 40.8 per cent in the preceding year. A provision of Rs.12,082 crores has been made for General Services constituting 20.8 per cent of the total expenditure. The relative amount in 1985-86 was Rs.10,876 crores accounting for 20.0 per cent of the total expenditure. Of the total rise of Rs.1,206 crores in the expenditure on General Services, Rs.949 crores would be accounted for by defence and Rs.269 crores by non-consumption expenditure which would be offset to a small extent by a decline of Rs.12 crores in consumption expenditure other than defence. The unallocable expenditure of Rs.12,364 crores constituting 21.3 per cent of the total expenditure would record an increase of Rs.1,082 crores or 9.6 per cent. In the preceding year this item grew by 30.6 per cent. Of the rise of Rs.1,082 crores, Rs.1,409 crores is for interest payments, Rs.83 crores for grants to States and Union Territories, Rs.34 crores for other capital transfers and Rs.36 crores for pensions, partially offset by a decline of Rs.468 crores in 'Other loans to States and Union Territories'.

Expenditure on capital formation would be Rs.23,598 crores in 1986-87 — a rise of 5.7 per cent or Rs.1,277 crores in comparison with a rise of 27.2 per cent or Rs.4,770 crores in 1985-86. Within developmental expenditure, the amount allotted for capital formation is Rs.23,289 crores recording a rise of 5.6 per cent or Rs.1,227 crores over the preceding year. The provision for capital formation out of non-developmental expenditure is Rs.309 crores which shows a rise of Rs.50 crores or 19.3 per cent over the preceding year. The share of the total provision for capital formation for developmental purposes to total developmental expenditure is expected to go up from 68.6 per cent in 1985-86 to 69.3 per cent in 1986-87. The provisions for capital formation under Social Services, Economic Services and Block Grants and Loans budgeted at Rs.1,813 crores, Rs.16,363 crores and Rs.5,113 crores envisage rise of Rs.245 crores or 15.6 per cent, Rs.888 crores or 5.7 per cent and Rs.94 crores or 1.9 per cent, respectively.

Major Tax Proposals: 1986-87

The budget proposals envisage a major overhaul of the system of excise taxation which will reduce the cascading effect on multi-point excise levies and help in reducing costs and prices to consumers. The proposals would encourage the development of small-scale industries including handlooms, improve the supply of cheaper cloth and give a fillip to the production of edible oils. Export promotion, protection to the indigenous capital goods industry and lower duties on drugs, medicines and certain articles of the interest to consumers are the other features. The burden of proposals for raising revenue is intended to fall on the affluent sections of the society.

The salient features of the major tax proposals contained in the Budget are briefly summarised in the following paragraphs. (Post-budget modifications are not taken into account).

(A) Direct Taxes

(1) Income-Tax

The income-tax rates and exemption limit have been kept unchanged. However, the standard deduction is raised from 25 per cent to 30 per cent of salary income and the ceiling has also been raised from Rs.6,000 to Rs.10,000 benefiting about 3.5 lakhs salaried tax payers in the fixed income group.

Income from any winnings from crossword puzzles, card games, races, gambling or betting of any form and winnings from lotteries will not be aggregated with other income. They will be taxed at a flat rate of 40 per cent of the gross receipts. Also, losses, if any, from other business will not be allowed to be set off against winnings from races or lotteries. The exemption from income of a casual and non-recurring nature is raised from Rs.1,000 to Rs.5,000.

(2) Gift Tax

The following changes have been made in the Gift Tax.

(a) The basic exemption limit is raised from Rs.5,000 to Rs.20,000.

(b) Gift tax will be levied at a flat rate of 30 per cent of the value of the taxable gifts.

(c) The provision relating to aggregation of gifts will be deleted.

(d) Certain exemptions like those relating to National Defence Gold Bonds, 1980, gifts to spouse, gifts of policies of insurance, gifts in the course of carrying on a business, etc., and gifts to any other person up to a maximum of Rs.500/- are withdrawn.

(3) Capital Gains Tax

In the case of the Capital Gains Tax, the following changes have been made.

(a) The date of determining the cost of acquisition of assets or its fair market value is advanced from 1.1.1964 to 1.4.1974.

(b) The limit for initial deduction is increased from Rs.5,000 to Rs.10,000.

(c) A uniform rate of deduction at the rate of 50 per cent is prescribed for long-term capital gains from buildings and lands and 60 per cent from other assets.

(d) Notified Bonds issued by Industrial Development Bank of India (IDBI) and other notified public sector agencies are added to the list of investments qualifying for exemptions from capital gains.

(4) Wealth Tax

In order to eliminate the valuation problems in Wealth Tax, the Government has decided to frame simpler rules for the valuation of assets such as shares, residential properties, commercial properties, jewellery, etc.

(5) Corporation Tax

(a) A Funding Scheme is introduced which replaces the Scheme for Investment Allowance. Assessees will be allowed deduction to the extent of 20 per cent of the profits if these are deposited with the IDBI or utilised for the purchase of plant and machinery.

(b) Surcharge on companies is abolished from the assessment year 1987-88.

(c) Investment Allowance will not be available in respect of plant and machinery installed after March 31, 1987. The benefit of both investment allowance and the Funding Scheme will not be available in the same assessment year.

(d) Capitalisation of interest paid or payable will not be allowed after the asset is first put to use.

(e) It is proposed to create a Venture Fund to promote indigenous technology to be administered by the IDBI. A small 5 per cent Research and Development levy will be imposed on all payments made for purchase of technology from abroad including royalty payments, etc., for the funding of this Scheme.

(f) The ceiling of investment in plant and machinery for the small-scale sector is raised from Rs.20 lakhs to Rs.35 lakhs.

(g) A system of allowing depreciation in respect of block of assets instead of the existing system of depreciation on individual assets has been introduced. The rate structure is also rationalised by reducing the number of rates as also by providing for depreciation at higher rates so as to ensure that more than 80 per cent of the cost of the plant and machinery is written-off in a period of 4 years or less, with a view to helping modernisation and easier replacement.

The total impact of concessions would be a revenue loss of Rs.33 crores while the additional tax proposals in respect of direct taxes

would yield Rs.54 crores, giving a net increase in revenue by Rs.21 crores.

(B) Indirect Taxes

1) Excise Duties

(a) The main proposal is the introduction of the Modified Value Added Tax (MODVAT) in the first stage for all goods covered by 37 specified Chapters of the Central Excise Tariff Act, 1985, which would allow the manufacturer to obtain instant and complete reimbursement of excise duty paid on the components and raw materials with a view to avoiding cascading effect on the value of the final product. As it is a measure of cost reduction and also facilitates payment of duty draw-back, it will benefit both the consumers and exporters. The Scheme covers the products of chemical and allied industries, paints and packaging materials, plastics, glass and glassware, rubber products, base metals and articles of base metals, machinery and mechanical appliances including electrical equipments, motor vehicles and certain miscellaneous manufactured products. Since the introduction of the Scheme will result in cost reduction in final product, the rates of duties on them are suitably adjusted to retain the collection of excise duties at the earlier level.

(b) In the last year's Budget, the special excise duty was removed from 100 items. The current year's Budget removes duties on the remaining 32 items of the old Tariff.

The other features are:

(i) Forty one life-saving drug formulations are exempted from excise duty which will cost the exchequer Rs.15 crores.

(ii) Excise abolition and reliefs are provided to some items of daily use. They are stoves using kerosene and wood, low-priced footwear, brushes, combs, umbrellas, chalks, etc.

(iii) The cess on cotton, copra and vegetable oils is dispensed with resulting in a revenue loss of Rs.5.9 crores.

(iv) Cars which are covered under MODVAT are subject to 25 per cent excise duty in respect of the fuel-efficient ones and 35 per cent excise duty in respect of the non-fuel efficient ones as against 15 per cent and 25 per cent, respectively, levied earlier. Under the new Excise Tariff, both the chassis of the vehicles and the body-building of the motor vehicles are chargeable to excise duty. The net revenue gain of these proposals would be Rs.40 crores.

(v) Excise duty is enhanced on Colour T.V. sets of screen size exceeding 36 cms. from Rs.900 to Rs.1,500 per set resulting in a revenue gain of Rs.48 crores in a year.

(vi) Excise duty on air-conditioners is raised and existing duty replaced by a specific duty to stop evasion. Air-conditioners up to 1.5 tonne capacity will have a specific rate of duty of Rs.8,000, for air-conditioners between 1.5 tonnes and up to 3 tonnes capacity it will be Rs.10,000 per air-conditioner. Thereafter up to a capacity of 7.5 tonnes the excise duty is Rs.15,000 per air-conditioner. A uniform duty of 60 per cent *ad valorem* will be levied on all parts and accessories of refrigerating and air-conditioning machinery. The duty on compressors of air-conditioners would be specific at Rs.4,000 per compressor.

(vii) Excise duty is abolished on branded cigars, cheroots and cigarettes and branded Hukka tobacco to encourage their exports.

(c) Small-Scale Industries

Under the new scheme of excise concessions for small-scale units the full exemption will continue to be available up to clearances of Rs.7.5

lakhs in a year which account for nearly 85 per cent of small-scale units. For clearances in excess of Rs.7.5 lakhs, the excise concession will be available at a flat rate of 10 percentage points below normal duty, subject to a minimum excise duty of 5 per cent. This concession will apply up to a turnover limit of Rs.75 lakhs. Thereafter the unit will pay the normal duty but will continue to enjoy the concessional rate on the turnover in respect of the first Rs.75 lakhs. This concession will not be available if the unit crosses a turnover of Rs.1.5 crores. An important feature of the new scheme is its universal applicability to all types of exciseable goods with a few exceptions like cosmetics, TV sets, refrigerating and air-conditioning appliances, etc. A new and major concession allowed to the small-scale sector relates to the grant of proforma credit under the MODVAT Scheme.

(d) Oilseeds Development

With a view to providing incentives for the larger production of edible oils from rice bran, oilcakes, cottonseeds and tree oilseeds certain concessions are proposed in excise duty rates for the use of these oils in the manufacture of vanaspati or soaps.

(e) Textile Industry

Under the first stage of Textile Policy announced in August 1985, certain reliefs were given to fibre manufacturers and the blended yarn producers with a view to bringing down the prices of their products. However, after an initial decline the prices of blended yarn went up or ruled near the level prior to the grant of excise relief. The Budget therefore reduced the relief given to the yarn producers roughly by about 50 per cent. Additional excise duty (in lieu of sales tax) on cotton and man-made fabrics of value exceeding Rs.50 per square metre is also raised by Rs.2.50 per square metre yielding a revenue of Rs.18 crores for the States. On the other hand, blended polyester cotton and polyester viscose yarn with certain polyester content supplied to specified handloom organisations have been fully exempted. Duty is also waived on the processing of specified blended fabrics by specified handloom organisations. Handloom cess, however, is raised from the existing rate of 1.9 paise to 2.5 paise per square metre. The revenue gain of Rs.3.23 crores will be utilised for setting up an enforcement machinery to ensure that the items reserved for handloom sector are not encroached upon by other sectors of textile industry. Also, the excise duty exemption is extended to cover all shoddy woollen products which include blankets, melton cloth, shoddy shawls and other fabrics.

(2) Customs Duties

(a) The Budget aims at rationalising the structure of auxiliary duties of customs. The existing 11 slabs are reduced to three slabs, namely, nil, 25 per cent and 40 per cent which would result in a revenue gain of Rs.190 crores. However, the removal of auxiliary duty from certain GATT-bound items would mean a loss of Rs.9 crores.

(b) Capital Goods Industry

(i) With a view to providing adequate support to the indigenous capital goods industry the general machinery rate of basic customs duty is increased by 10 per cent. A similar increase is made in the general project rate from 45 per cent to 55 per cent *ad valorem*. This would result in a revenue gain of Rs.244 crores.

(ii) As a complement to the measures mentioned above, the import duty on components of capital goods is reduced by 5 per cent so as to ensure that the import duty on components will be 15 per cent below the import duty on complete machines. This would result in a revenue loss of Rs.50 crores.

(iii) In respect of 32 machine tools where domestic production has been established, the customs duty is raised from the present rate of 65 per cent to 110 per cent while in respect of another 91

machine tools and instruments with negligible domestic production, import duty is reduced to 35 per cent *ad valorem* (basic plus auxiliary). These measures result in a revenue loss of Rs.9 crores.

(c) Export Incentives

The Budget contains certain concessions to help export and encourage export production. They are listed below.

(i) Export duty on unmanufactured tobacco is abolished.

(ii) Draw-back rate of garment industry is improved from 7.5 per cent to 10 per cent.

(iii) Import duty on wattle bark used by footwear industry is reduced from 70 per cent to 40 per cent *ad valorem*.

(iv) Import duty on leather-shaving blades is reduced from an average rate of 72.5 per cent to 40 per cent.

(v) Import duty on specified machines used in the processing and packaging of marine products is reduced from the existing rate of 100 per cent to 40 per cent (basic and auxiliary).

(vi) Import duty in respect of 74 items of machines, equipments and tools for gems and jewellery is reduced from the existing level of 40 per cent to 25 per cent *ad valorem*. The concessions given for exports will cost the exchequer Rs.12.94 crores on the customs side.

The budget proposals are expected to yield a net additional revenue of Rs.488 crores; of this the Centre's share would be Rs.445 crores and States' share Rs.43 crores.[8] Along with tax proposals of Railways aggregating Rs.76 crores, the total net additional revenue would be Rs.564 crores inclusive of the Central and States' share (Table VIII-6).

Table VIII—6: Additional Resource Mobilisation by the Centre during 1986-87

(Rupees crores)

Items	Centre's share	States' share	Total
1.	2.	3.	4.
I. Taxes (a + b)	**445***	**43***	**488***
(a) Direct Taxes (i + ii)	14	7	21
(i) Income Tax	1	7	8
(ii) Corporation Tax	13	—	13
(b) Indirect Taxes (i+ii)	431	36	467
(i) Customs	407	—	407
(ii) Union Excise Duties	24	36	60
II. Revision in Railway Fares and Freights	**76**	**—**	**76**
III. Total (I+II)	**521**	**43**	**564**

* Excludes post-budget tax concessions.

Source: Budget Documents of Government of India, 1986-87.

The changes in direct taxes would yield an additional revenue of Rs.21 crores and those in indirect taxes Rs.467 crores. Within direct taxes, Income-Tax would fetch an additional revenue of Rs.8 crores and Corporation Tax Rs.13 crores. In the case of indirect taxes changes would yield an additional revenue of Rs.500 crores from Customs Duties and Rs.254 crores from Excise Duties. The concessions and reliefs would aggregate Rs.93 crores on the

8. Excludes the effects of post-budget tax concessions.

Customs side and Rs.193 crores on the Excise side. The net additional revenue from Customs Duties would be Rs.407 crores and that from Excise Duties Rs.60 crores. In Excise Duties, the Centre's share would be Rs.24 crores and that of the States Rs.36 crores. In the total net additional yield of Rs.467 crores, the Centre's share would be Rs.431 crores and that of the States Rs.36 crores. Thus the tax measures, both direct and indirect taken together with reliefs, are estimated to yield an additional revenue of Rs.445 crores to the Centre and Rs.43 crores to the States. Thus, taking into account the net additional revenue of Rs.445 crores that will accrue to the Centre, the uncovered deficit will be Rs.3,650 crores.

Other Measures

Two measures which will benefit particularly the poorer sections of our society envisaged are viz.,(i) a new housing scheme for Scheduled Castes and Scheduled Tribes named as 'INDIRA AWAAS YOJANA' for providing housing facilities to the poor and needy people among them and (ii) a new scheme for accident insurance for the benefit of municipal sweepers and railway porters which would provide a life insurance cover of Rs.5,000 with double accident benefit to members of Workers' Unions provided 75 per cent of the members agree to join the scheme. Personal accident insurance social security scheme for poor families in operation in 100 districts is to be extended to 200 districts in the country. The entire cost of the scheme would be borne by the Central Government.

II. BUDGETARY OPERATIONS OF STATE GOVERNMENTS

Revised Estimates : 1985-86

According to the revised estimates of 1985-86 aggregate receipts of 22 State governments increased from Rs.38,308 crores in 1984-85 to Rs.46,594 crores in 1985-86 representing an increase of 21.6 per cent.[9] Aggregate disbursements, on the other hand, showed an increase of 15.2 per cent from Rs.39,746 crores in 1984-85 to Rs.45,771 crores in 1985-86. As a result, the budgeted deficit of Rs.100 crores in 1985-86, (inclusive of Additional Resource Mobilisation and States' share in the Centre's additional taxation), turned into an overall surplus of Rs.823 crores,[10] in contrast to a deficit of Rs.1,438 crores in 1984-85. (Table VIII-7). This favourable turn in State finances was facilitated to a large extent by the transfer of resources from the Centre which is dealt with later.

Receipts

The improvement in aggregate receipts in 1985-86 was due to higher growth in both revenue receipts and capital receipts.[11] While revenue receipts amounted to Rs.33,417 crores registering a growth of 21.8 per cent, capital receipts aggregated Rs.13,177 crores recording a rise of 21.1 per cent. Under revenue receipts, tax receipts increased by 18.1 per cent to Rs.21,393 crores and non-tax receipts amounted to Rs.12,024 crores showing an increase of 29.1 per cent. While the share of tax receipts in

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9. The comparisons are between the revised estimates of 1985-86 and the accounts figures of 1984-85, unless otherwise stated.

10. Aggregate receipts in 1985-86 (Budget Estimates) exclude the medium-term loans of Rs.535.9 crores given to 3 States equal to 90% of the overdrafts outstanding with the Reserve Bank of India as on January 28, 1985; only 3 States took credit for the medium-term loans in their budget estimates for 1985-86 out of the 17 States which were granted these loans. Aggregate receipts in 1985-86 (Revised Estimates) exclude the medium-term loans of Rs.1,628.0 crores given to 17 States; all these States took credit for the medium term loans under capital receipts.

11. Aggregate receipts include: (i) Revenue receipts, (ii) Capital receipts excluding Ways and Means Advances (WMA) and overdrafts from RBI and (iii) net receipts under Public Account excluding withdrawal from Cash Balance Investment Account and cash balances. Total disbursements include (1) Revenue Expenditures and (2) Capital Disbursements excluding repayment of Ways and Means Advances and overdrafts from RBI. Additions to Cash Balance Investment Account and cash balances are also excluded.

Table VIII—7: Overall Budgetary Position of State Governments

(Rupees crores)

Items	1984-85 (Accounts)	1985-86 (Budget Estimates)		1985-86 (Revised Estimates)		1986-87 (Budget Estimates)	
	Amount	Amount	Percentage variation over the previous year	Amount	Percentage variation over the previous year	Amount	Percentage variation over the previous year
1.	2.	3.	4.	5.	6.	7.	8.
I. Aggregate Receipts (A + B)	**38308**	**42497**	**+10.9**	**46594**	**+21.6**	**48412**	**+3.9**
		(41654)	**(+8.7)**			**(47989)**	**(+3.0)**
A. Revenue Receipts (1 + 2)	**27426**	**32199**	**+17.4**	**33417**	**+21.8**	**36657**	**+9.7**
		(31356)	**(+14.3)**			**(36234)**	**(+8.5)**
1. Tax Receipts (a + b)	18115	21092	+16.4	21393	+18.1	24287	+13.5
		(20340)	(+12.3)			(23895)	(+11.7)
(a) States' Taxes	12260	14406	+17.5	14297	+16.5	16433	+14.9
		(13788)	(+12.5)			(16084)	(+12.5)
(b)Share in Central Taxes	5855	6686	+14.2	7096	+21.2	7854	+10.7
		(6552)	(+11.9)			(7811)	(+10.1)
2. Non-Tax Receipts (c + d)	9311	11107	+19.3	12024	+29.1	12370	+2.9
		(11016)	(+18.3)			(12339)	(+2.6)
(c) Grants from the Centre	4762	5918	+24.3	6816	+43.1	6524	−4.3
(d) Other Non-Tax Receipts	4549	5189	+14.1	5208	+14.5	5846	+12.3
		(5098)	(+12.1)			(5815)	(+11.7)
B. Capital Receipts (1 + 2)	**10882**	**10298**	**−5.4**	**13177**	**+21.1**	**11755**	**−10.8**
1. States' Capital Receipts	4973	4320	−13.2	4982	+0.1	4504	−9.6
of which:							
(a) Market Borrowings (Gross)	1164	1306	+12.2	1410	+21.1	1422	+0.9
(b) Recovery of Loans and Advances	1030	835	−18.9	909	−11.7	811	−10.8
2. Loans from the Centre (Gross)	5909	5978	+1.2	8195	+38.7	7251	−11.5
II. Aggregate Disbursements (A to E)	**39746**	**42597**	**+7.2**	**45771**	**+15.2**	**48585**	**+6.1**
A. Developmental Expenditure • (1 + 2)	**27958**	**29398**	**+5.2**	**31924**	**+14.2**	**33399**	**+4.6**
1. Social and Community Services	12401	13562	+9.4	14846	+19.7	15520	+4.5
of which:							
Expenditure on Natural Calamities	391	196	−49.9	713	+82.4	189	−73.5
2. Economic Services	15557	15836	+1.8	17078	+9.8	17879	+4.7

(Contd.)

Table VIII—7: Overall Budgetary Position of State Governments *(Concld.)*

(Rupees crores)

Items	1984-85 (Accounts)	1985-86 (Budget Estimates)		1985-86 (Revised Estimates)		1986-87 (Budget Estimates)	
	Amount	Amount	Percentage variation over the previous year	Amount	Percentage variation over the previous year	Amount	Percentage variation over the previous year
1.	2.	3.	4.	5.	6.	7.	8.
B. Non-Developmental Expenditure*	**8340**	**10169**	**+21.9**	**9975**	**+19.6**	**11744**	**+17.7**
C. Repayment of Loans to the Centre	**2330**	**2001**	**−14.1**	**2506**	**+7.6**	**2659**	**+6.1**
D. Discharge of Internal Debt	**597**	**563**	**−5.7**	**548**	**−8.2**	**420**	**−23.4**
of which:							
Market Loans	471	446	−5.3	454	−3.6	296	−34.8
E. Others†	**521**	**466**	**−10.6**	**818**	**+57.0**	**363**	**−55.6**
III. Overall Surplus (+) or Deficit (−) (I-II)	**−1438**	**−100**		**+823**		**−173**	
		(−943)				**(−596)**	

* Comprise expenditure on Revenue and Capital Accounts and Loans and Advances extended by States.

† Comprise compensation and assignments to local bodies, reserve with finance department; appropriation for Contingency Fund and remittances (net).

Notes:

1. Budget estimates for 1986-87 include the estimated net yield of Rs.380 crores from additional resource mobilisation measures proposed in the State budgets for 1986-87, and the States' share of Rs.43 crores in the Centre's additional taxation/concession proposed in the Central budget, 1986-87.
2. Budget estimates for 1985-86 include the estimated net yield of Rs.709 crores from additional resource mobilisation measures introduced through the State budgets for 1985-86 and States' share of Rs.134 crores in the Centre's additional taxation/concession introduced through the Central budget for 1985-86.
3. Figures in brackets under the year 1985-86 (Budget Estimates) and 1986-87 (Budget Estimates) are at 1984-85 and 1985-86 rates of taxation, respectively.
4. States' Capital Receipts as well as loans from the Centre (Gross) in 1985-86 (Budget Estimates) exclude the medium-term loans of Rs.535.9 crores given by the Centre to three States equal to 90% of overdrafts outstanding with the Reserve Bank of India as on January 28, 1985. Only these 3 States took credit for the medium-term loans in their estimates of capital receipts out of 17 States which were granted these loans for clearing overdrafts.
5. States' Capital Receipts as well as loans from the Centre (Gross) in 1985-86 (Revised Estimates) exclude the medium-term loans of Rs.1628.0 crores given by the Centre to 17 States equal to 90% of their overdrafts outstanding with the Reserve Bank of India as on January 28, 1985.
6. Data in respect of Jammu and Kashmir are from Jammu and Kashmir Appropriation (No.2) Act, 1986.
7. Figures for 1984-85 for Nagaland and Jammu and Kashmir relate to revised estimates.

the aggregate receipts came down from 47.3 per cent in 1984-85 to 45.9 per cent in 1985-86, that of non-tax receipts went up to 25.8 per cent from 24.3 per cent. Among tax receipts, States' own taxes rose to Rs.14,297 crores (+Rs.2,037 crores, +16.6 per cent) and share in Central taxes was Rs.7,096 crores (+Rs.1,241 crores, +21.2 per cent).[12] At this level, the States' own taxes constituted 30.7 per cent of the aggregate receipts in 1985-86 as against 32.0 per cent in 1984-85. Among the States' own taxes the major contribution to the increase was from sales tax; revenue from sales tax increased by Rs.1,190 crores and accounted for 58.4 per cent of the increase in States' own tax revenue. The shares of other important taxes in the increase of States' own tax revenue are: State excise duties (+Rs.258 crores), electricity duties (+Rs.178 crores), taxes on vehicles (+Rs.136 crores) and tax on passengers and goods (+Rs.66 crores). Of the increase of Rs.1,241 crores in the share in Central taxes, 75.7 per cent was accounted for by Union excise duties and 24.3 per cent by income tax. While the proportion of States' own tax revenue in the total tax revenue declined from 67.7 per cent in 1984-85 to 66.8 per cent in 1985-86 that of share in Central taxes increased from 32.3 per cent to 33.2 per cent during the same period. During 1985-86, non-tax revenue of the States increased to Rs.12,024 crores from Rs.9,311 crores in 1984-85 registering a growth of 29.1 per cent. Under non-tax receipts the grants from the Centre increased by Rs.2,054 crores showing a sharper growth rate of 43.1 per cent in 1985-86 than the 16.3 per cent recorded in 1984-85. Other non-tax receipts increased by 14.5 per cent in 1985-86 as against 9.4 per cent in 1984-85.

Capital Receipts

Total capital receipts of the States after excluding the medium-term loans from the Centre for the clearance of overdrafts, increased to Rs.13,177 crores representing a growth of 21.1 per cent in 1985-86 as compared with 19.7 per cent in 1984-85. A major part of the increase in capital receipts was due to loans from the Centre (Gross) which amounted to Rs.8,195 crores while States' own capital receipts were marginally higher at Rs.4,982 crores. While the former registered a rise of 38.7 per cent against 20.5 per cent in 1984-85, the latter showed a marginal increase of 0.1 per cent against 18.7 per cent in the previous year. In the States' capital receipts gross market borrowings, according to budget documents, amounted to Rs.1,410 crores higher by Rs.246 crores over 1984-85. According to the Reserve Bank of India records, gross market borrowings for all the 22 States in 1985-86 aggregated Rs.1,414 crores as compared with Rs.1,301 crores in 1984-85. Net market borrowings, according to RBI records, increased to Rs.973 crores from Rs.772 crores in 1984-85. Although the States' share in gross market borrowings (Centre as well as States) declined to 19.7 per cent in 1985-86 from 22.1 per cent in 1984-85 in net terms the share increased marginally to 16.0 per cent as against 15.8 per cent in 1984-85. The recovery of loans and advances granted by the States declined from Rs.1,030 crores in 1984-85 to Rs.909 crores in 1985-86.

Transfer of Resources from the Centre

There was a substantial rise in the devolution of resources from the Centre to the States due partly to the full effect given to the recommendations of the Eighth Finance Commission for the first time in 1985-86. Total gross transfer of resources from the Centre to the States in the form of share in Central taxes and duties, grants and loans increased to Rs.22,107 crores from Rs.16,526 crores in 1984-85 or by Rs.5,581 crores showing a growth rate of 33.8 per cent over the previous year. The growth rate in 1984-85 (over 1983-84) was 18.0 per cent. The relative contributions of the share in Central taxes and duties, grants and loans to the total resources transferred were Rs.7,096 crores, Rs.6,816 crores and Rs.8,195 crores accounting for 32.1 per cent, 30.8 per cent and 37.1 per cent, respectively. Of the increase of Rs.5,581

12. Figures in brackets indicate the absolute rise followed by percentage increase over the previous year.

crores in the resources transferred, loans accounted for 41.0 per cent followed by grants 36.8 per cent and share in Central taxes and duties 22.2 per cent. The share of resources transferred from the Centre in the aggregate receipts of the States increased from 43.1 per cent in 1984-85 to 47.5 per cent in 1985-86. However, after adjusting for interest payments on loans from the Centre (Rs.1,885 crores) and repayment of loans to the Centre (Rs.2,506 crores) the net transfer of resources amounted to Rs.17,716 crores in 1985-86 or a rise of 38.4 per cent as against Rs.12,799 crores or a rise of 17.0 per cent in 1984-85. At these levels, net resources transferred from the Centre as proportion to aggregate receipts (adjusted to loans from Centre on a net basis) increased from 35.6 per cent in 1984-85 to 40.2 per cent in 1985-86.

Plan loans (gross) increased from Rs.3,173 crores in 1984-85 to Rs.3,960 crores in 1985-86 and non-Plan loans from Rs.2,736 crores to Rs.4,235 crores. The share of small savings in non-Plan loans moved up by Rs.1,239 crores to Rs.2,715 crores in 1985-86. While grants for State Plan Schemes and Centrally-Sponsored Schemes increased from Rs.1,946 crores and Rs.1,311 crores in 1984-85 to Rs.2,545 crores and Rs.2,216 crores, respectively, in 1985-86, the grants for Central Plan Schemes declined to Rs.497 crores from Rs.699 crores in 1984-85. Total non-Plan grants went up by Rs.751 crores to Rs.1,557 crores and accounted for 22.8 per cent of the total grants from the Centre. Grants for natural calamities amounted to Rs.301 crores accounting for 19.3 per cent of the total non-Plan grants.

Disbursements

Aggregate disbursements rose by Rs.6,025 crores to Rs.45,771 crores recording a growth of 15.2 per cent as compared with Rs.39,746 crores or 18.1 per cent a year earlier. Of the increase of Rs.6,025 crores in aggregate disbursements, Rs.3,966 crores (65.8 per cent) was accounted for by developmental expenditure and Rs.1,635 crores (27.1 per cent) by non-developmental expenditure and the rest Rs.424 crores (7.1 per cent) was on account of repayment of loans to the Centre and other expenditures. Total developmental expenditure increased to Rs.31,924 crores registering a growth of 14.2 per cent in 1985-86 against 16.6 per cent in 1984-85. On the other hand, non-developmental expenditure amounted to Rs.9,975 crores and recorded an increase of 19.6 per cent as compared with 21.2 per cent in 1984-85. The relative shares of developmental and non-developmental expenditures in total disbursements were 69.7 per cent and 21.8 per cent, respectively, in 1985-86. The corresponding shares were 70.3 per cent and 21.0 per cent, respectively, in 1984-85. Expenditures on 'Economic Services' and 'Social and Community Services' amounted to Rs.17,078 crores and Rs.14,846 crores and formed about 53.5 per cent and 46.5 per cent, respectively, of developmental expenditure in 1985-86 as compared with 55.6 per cent and 44.4 per cent, respectively, in 1984-85.

Repayment of loans to the Centre increased to Rs.2,506 crores — a rise of 7.6 per cent in 1985-86 against the increase of 24.5 per cent in 1984-85. It accounted for 5.4 per cent of aggregate receipts. The relative proportion was 6.1 per cent in 1984-85. On the other hand, expenditure on the discharge of internal debt declined to Rs.548 crores (−8.2 per cent) in 1985-86 from Rs.597 crores (+143.7 per cent) in 1984-85. Other expenditures increased to Rs.818 crores from Rs.521 crores in 1984-85 showing a rise of 57.0 per cent.

Budget Estimates: 1986-87

At 1985-86 rates of taxation, the combined budgetary position of the 22 States reveals a deficit of Rs.596 crores in 1986-87 against a surplus of Rs.823 crores in 1985-86 (R.E.) and a deficit of Rs.1,438 crores in 1984-85 (Accounts)[13]. However, when allowance is made for ARM (net of concessions) of Rs.380 crores and the States' share of Rs.43 crores in the Centre's additional tax collections in 1986-87 the overall deficit gets reduced to Rs.173 crores (Table VIII-7).

State-wise Position

An examination of the State-wise details shows that even after ARM 14 States have deficit budgets (Table VIII-8). The overall deficits range from Rs.0.1 crore in Meghalaya to Rs.137.7 crores in Andhra Pradesh. The deficits of four States, viz., Andhra Pradesh (Rs.137.7 crores), Uttar Pradesh (Rs.88.9 crores), Rajasthan (Rs.55.9 crores) and Gujarat (Rs.45.0 crores) account for 69.4 per cent of the total deficit of Rs.472.0 crores of the 14 States. Because of concessions the deficits of Madhya Pradesh and Tamil Nadu are anticipated to rise to Rs.13.3 crores and Rs.24.8 crores, respectively, from Rs.12.3 crores and Rs.4.8 crores, respectively. While in the case of some States economy in expenditure, improvement in tax administration and bouyancy in tax collections are expected to close the budgetary gap, others have expressed the hope that there would be a higher devolution of resources from the Centre than budgeted.

The States presenting surplus budget are: Bihar (Rs.87.9 crores), Maharashtra (Rs.78.6 crores), Manipur (Rs.5.8 crores), Nagaland (Rs.23.9 crores), Punjab (Rs.39.0 crores), Tripura (Rs.5.2 crores) and West Bengal (Rs.15.5 crores). Together these seven States have a surplus of Rs.255.9 crores. The budget speech for Maharashtra indicates that there would be supplementary demands for additional disbursements of Rs.244.3 crores inclusive of Rs.150.0 crores in respect of the Cotton Monopoly Procurement Scheme. This is likely to result in the budget becoming a deficit one.

Receipts

The budgets for 1986-87 expect aggregate receipts to rise to Rs.48,412 crores from Rs.46,594 crores in 1985-86, after taking into account proposals for ARM[14]. This implies an increase of Rs.1,818 crores or 3.9 per cent against an increase of Rs.8,286 crores or 21.6 per cent in the previous year. The lower percentage is due to a decline in capital receipts. Revenue receipts would rise by Rs.3,240 crores or 9.7 per cent from Rs.33,417 crores in 1985-86 to Rs.36,657 crores in 1986-87. Capital receipts, on the other hand, are estimated to decline by Rs.1,422 crores or 10.8 per cent from Rs.13,177 crores in 1985-86 to Rs.11,755 crores in 1986-87. The Revenue Account shows a larger surplus of Rs.617 crores — a rise of Rs.244 crores or 65.4 per cent over the position in 1985-86. As a consequence, the share of revenue and capital receipts in total receipts will be 75.7 per cent and 24.3 per cent, respectively, in contrast to 71.7 per cent and 28.3 per cent in 1985-86.

Revenue Receipts

Under revenue receipts, tax and non-tax receipts at Rs.24,287 crores and Rs.12,370 crores, respectively are expected to register increases of 13.5 per cent and 2.9 per cent, respectively. In 1985-86, the relative percentages were 18.1 per cent and 29.1 per cent. The States' own taxes account for 73.8 per cent of the rise in tax receipts in contrast to 62.1 per cent in 1985-86. While the States' tax receipts will be Rs.16,433 crores in 1986-87 (+Rs.2,136 crores, +14.9 per cent), the share in Central taxes will be Rs.7,854 crores (+Rs.758 crores, +10.7 per cent). In the previous year the levels were Rs.14,297 crores (+Rs.2,037 crores, +16.6 per cent) and Rs.7,096 crores (+Rs.1,241 crores, +21.2 per cent), respectively. The comparative position in respect of receipts from different taxes is given below.

Under non-tax receipts, grants from the Centre would decline by 4.3 per cent from Rs.6,816 crores in 1985-86 to Rs.6,524 crores in 1986-87 whereas they rose by 43.1 per cent in

13. Of the 22 State budgets for 1986-87, 21 are final budgets passed by the legislatures; the Jammu & Kashmir Appropriation (No.2) Act, 1986 was enacted by the Governor of the State on March 25, 1986.

14. The comparisons in this Section are between budget estimates for the year 1986-87 and the revised estimates of 1985-86, while those for 1985-86 and 1984-85 are between the revised estimates of the former and the accounts figures of the latter. The absolute variations over the levels of the previous year are given followed by percentage variations in brackets.

Table VIII—8: Aggregate Receipts/Disbursements and Overall Surplus (+) or Deficit (−) of State Governments: State-wise details

(Rupees crores)

States	1984-85 (Accounts)			1985-86 (Budget Estimates)			1985-86 (Revised Estimates)			1986-87 (Budget Estimates)				
	Aggregate Receipts	Aggregate Disbursements	Overall Surplus(+)/ Deficit(−)	Aggregate Receipts	Aggregate Disbursements	Overall Surplus(+)/ Deficit(−)	Aggregate Receipts	Aggregate Disbursements	Overall Surplus(+)/ Deficit(−)	Aggregate Receipts	Aggregate Receipts adjusted by ARM	Aggregate Disbursements	Overall Surplus(+)/ Deficit(−)	Overall Surplus(+)/ Deficit(−) adjusted by ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Andhra Pradesh	2965.8	3123.3	−157.5	3624.7	3616.0	+8.7	3628.1	3630.0	−1.9	3929.7	3929.7	4067.4	−137.7	−137.7
2. Assam	1022.0	1134.9	−112.9	1283.4	1340.4	−57.0	1522.3	1446.0	+76.3	1555.1	1589.1	1615.5	−60.4	−26.4
3. Bihar	2533.7	2437.4	+96.3	2855.8	2780.3	+75.5	3313.6	3092.8	+220.8	3258.1	3258.1	3170.2	+87.9	+87.9
4. Gujarat	2381.9	2451.1	−69.2	2486.4	2527.7	−41.3	2554.5	2580.0	−25.5	2914.6	2945.8	2990.8	−76.2	−45.0
5. Haryana	1042.4	1127.1	−84.7	1296.9	1247.4	+49.5	1323.2	1307.4	+15.8	1334.3	1334.3	1361.0	−26.7	−26.7
6. Himachal Pradesh	462.4	474.9	−12.5	550.4	519.9	+30.5	620.0	588.0	+32.0	591.1	591.1	592.0	−0.9	−0.9
7. Jammu and Kashmir	711.2	764.9	−53.7	902.5	843.7	+58.8	930.6	901.6	+29.0	952.5	952.5	952.5	—	—
8. Karnataka	2433.6	2614.4	−180.8	2724.1	2749.8	−25.7	2936.8	2936.0	+0.8	3110.1	3150.5	3153.7	−43.6	−3.2
9. Kerala	1494.6	1618.7	−124.1	1466.7	1597.2	−130.5	2020.2	1975.2	+45.0	1889.1	1917.0	1948.6	−59.5	−31.6
10. Madhya Pradesh	2443.5	2553.5	−110.0	3209.4	3123.2	+86.2	3281.4	3159.9	+121.5	3500.7	3499.7	3513.0	−12.3	−13.3
11. Maharashtra	5003.1	5032.4	−29.3	5104.5	5250.5	−146.0	5507.2	5515.9	−8.7	5903.6	6070.5	5991.9	−88.3	+78.6
12. Manipur	224.9	225.4	−0.5	183.3	189.2	−5.9	273.3	243.9	+29.4	254.4	254.4	248.6	+5.8	+5.8
13. Meghalaya	176.6	167.6	+9.0	214.3	200.2	+14.1	212.6	212.1	+0.5	243.6	243.6	243.7	−0.1	−0.1
14. Nagaland	219.0	201.6	+17.4	295.2	267.9	+27.3	307.6	272.3	+35.3	320.8	320.8	296.9	+23.9	+23.9
15. Orissa	1135.5	1271.8	−136.3	1545.3	1480.7	+64.6	1626.5	1534.4	+92.1	1689.4	1689.4	1705.8	−16.4	−16.4
16. Punjab	1699.6	1722.8	−23.2	1609.9	1586.1	+23.8	1998.4	2023.3	−24.9	1871.9	1910.9	1871.9	—	+39.0
17. Rajasthan	1813.7	1827.4	−13.7	2010.8	2068.8	−58.0	2139.0	2152.8	−13.8	2250.7	2272.2	2328.1	−77.4	−55.9

(Contd.)

Table VIII—8: Aggregate Receipts/Disbursements and Overall Surplus (+) or Deficit (−) of State Governments: State-wise details *(Concld.)*

(Rupees crores)

States	1984-85 (Accounts)			1985-86 (Budget Estimates)			1985-86 (Revised Estimates)			1986-87 (Budget Estimates)				
	Aggregate Receipts	Aggregate Disburse-ments	Overall Surplus(+)/ Deficit(−)	Aggregate Receipts	Aggregate Disburse-ments	Overall Surplus(+)/ Deficit(−)	Aggregate Receipts	Aggregate Disburse-ments	Overall Surplus(+)/ Deficit(−)	Aggregate Receipts	Aggregate Receipts adjusted by ARM	Aggregate Disburse-ments	Overall Surplus(+)/ Deficit(−)	Overall Surplus(+)/ Deficit(−) adjusted by ARM
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
18. Sikkim	83.1	81.9	+1.2	101.1	100.6	+0.5	105.0	102.7	+2.3	113.4	113.4	114.5	−1.1	−1.1
19. Tamil Nadu	2909.3	2945.0	−35.7	2867.2	3032.8	−165.6	3265.8	3223.3	+42.5	3171.8	3151.8	3176.6	−4.8	−24.8
20. Tripura	236.0	210.3	+25.7	274.0	283.6	−9.6	294.4	287.8	+6.6	320.0	320.0	314.8	+5.2	+5.2
21. Uttar Pradesh	4657.0	5021.3	−364.3	4899.7	4844.4	+55.3	5576.1	5469.9	+106.2	5459.9	5459.9	5548.8	−88.9	−88.9
22. West Bengal	2659.0	2738.0	−79.0	2990.8	2946.2	+44.6	3157.9	3115.6	+42.3	3354.0	3394.5	3379.0	−25.0	+15.5
Total	**38307.9**	**39745.7**	**−1437.8**	**42496.4**	**42596.6**	**−100.2**	**46594.5**	**45770.9**	**+823.6**	**47988.8**	**48412.2**	**48585.3**	**−596.5**	**−173.1**

Notes:

1. Aggregate disbursements include remittances (net).
2. **Figures for individual States for 1985-86 (Budget Estimates) include the estimated net yield of Rs.708.9 crores from additional resource mobilisation measures introduced through the State budgets and the States' share of Rs.134.1 crores in the Centre's additional taxation announced in the Central Budget for 1985-86.**
3. Figures for individual States for 1986-87 (Budget Estimates) reflect the effect of their budget proposals (Rs.380.4 crores) but do not take into account the estimated States' share in the Centre's additional taxation/concession because of non-availability of State-wise details. However, the total consolidated overall position is arrived at after adjusting the States' share of Rs.43.0 crores in the Centre's additional taxation proposed in the Central Budget for 1986-87.
4. **Aggregate receipts in 1985-86 (Budget Estimates) exclude the medium-term loans Rs.535.9 crores given to three States equal to 90% of the overdrafts** outstanding with the Reserve Bank of India as on January 28, 1985. Only three States had taken credit for the medium-term loans in their estimates of capital receipts out of 17 States which were granted these loans for clearing overdrafts.
5. Aggregate receipts in 1985-86 (Revised Estimates) exclude the medium-term loans of Rs. 1628.0 crores given to 17 States equal to 90% of the overdrafts outstanding with the Reserve Bank of India as on January 28, 1985.
6. Figures for 1984-85 in respect of Jammu and Kashmir and Nagaland relate to revised estimates.
7. Data in respect of Jammu and Kashmir are from Jammu and Kashmir Appropriation (No.2) Act, 1986.

Tax	Receipts			
	1986-87		1985-86	
	Amount (Rs.crores)	Increase over 1985-86(%)	Amount (Rs.crores)	Increase over 1984-85(%)
1	2	3	4	5
1. Sales tax	9541	15.6	8251	16.9
2. State Excise Duties	2379	13.4	2097	14.0
3. Land Revenue	319	6.7	299	6.0
4. Tax on Vehicles	970	15.9	837	19.6
5. Tax on Passengers and Goods	613	9.7	559	13.4
6. Taxes and Duties on Electricity	761	20.2	633	39.1
7. Stamps and Registration Fees	910	13.0	805	14.5

1985-86. Other non-tax receipts show a lower growth of 12.3 per cent (+14.5 per cent in 1985-86). While plan grants show a marginal rise of Rs.4 crores from Rs.5,258 crores in 1985-86 to Rs.5,262 crores in 1986-87, non-plan grants decline by Rs.294 crores to Rs.1,263 crores.

Capital Receipts

Total capital receipts are budgeted to decline by 10.8 per cent from Rs.13,177 crores in 1985-86 to Rs.11,755 crores in 1986-87. They went up by 21.1 per cent in 1985-86. The anticipated decline in capital receipts is attributable to that in loans from the Centre and lower estimated receipts of States' own capital receipts. Gross loans from the Centre and States' own capital receipts at Rs.7,251 crores and Rs.4,504 crores, respectively, will decline by 11.5 per cent and 9.6 per cent, respectively, against increases of 38.7 per cent and 0.1 per cent, respectively, in the previous year. Among the States' own capital receipts, market borrowings (gross) would be marginally higher by 0.9 per cent rising to Rs.1,422 crores in 1986-87 from Rs.1,410 crores in 1985-86. In 1985-86 market borrowings at Rs.1,410 crores registered a significant rise of 21.1 per cent over those in 1984-85. The recovery of loans and advances made by the States is anticipated to go down to Rs.811 crores from Rs.909 crores. Loans from the Centre on a net basis, i.e., after providing for the repayment of loan instalments and interest payments, are estimated to be Rs.2,094 crores (Rs.3,804 crores in 1985-86).

Disbursements

Aggregate disbursements are anticipated to rise by 6.1 per cent to Rs.48,585 crores from Rs.45,771 crores in 1985-86. Last year disbursements increased by 15.2 per cent over those in 1984-85. Developmental expenditure at Rs.33,399 crores goes up by Rs.1,475 crores or 4.6 per cent while non-developmental expenditure at Rs.11,744 crores rises by Rs.1,769 crores or 17.7 per cent. In 1985-86 they increased by 14.2 per cent and 19.6 per cent, respectively. Developmental and non-developmental expenditures constitute 68.7 per cent and 24.2 per cent of total disbursements against 69.7 per cent and 21.8 per cent, respectively, in 1985-86. While expenditures on Social and Community Services and Economic Services would rise by 4.5 per cent and 4.7 per cent, respectively, in 1986-87 the provision of funds to meet natural calamities show a steep fall of 73.5 per cent. In absolute amount, the expenditure on natural calamities would be only Rs.189 crores in 1986-87 compared with Rs.713 crores in 1985-86 and Rs.391 crores in 1984-85. The repayment of loans to the Centre would increase by 6.1 per cent against 7.6 per cent in 1985-86. The discharge of internal debt, however, shows a larger decline of 23.4 per cent than in 1985-86 when the fall was by 8.2 per cent. The other items of disbursements, comprising mainly compensation and assignments to local bodies, reserves with finance department and appropriation to contingency fund and remittances (net) are

anticipated to decline by 55.6 per cent from Rs.818 crores to Rs.363 crores.

Transfer of resources from the Centre to the States in 1986-87 by way of share in Central taxes, grants and loans, net of repayment and interest payments, at Rs. 16,472 crores registers a decline of 7.0 per cent whereas it went up by 38.4 per cent to Rs.17,716 crores in 1985-86. Net transfer of resources would account for 36.0 per cent of aggregate receipts (including Central loans on a net basis) and 37.9 per cent of total disbursements (excluding repayment of loan instalments and payment of interest charges to the Centre). These proportions were 40.2 per cent and 42.8 per cent, respectively, in 1985-86.

Additional Resource Mobilisation

Measures for ARM are proposed by 8 out of 22 State Governments in their budgets for 1986-87. Two States viz., Madhya Pradesh and Tamil Nadu, have provided for concessions of Re.1 crore and Rs.20 crores, respectively, and have also not proposed any ARM. The ARM is expected to yield a net additional revenue of Rs.380 crores by 8 States against Rs.709 crores by 18 States budgeted for 1985-86. The bulk of the ARM is expected from tax revenue (Rs.349 crores or 91.8 per cent of total ARM) and the balance from non-tax revenue (Rs.31 crores or 8.2 per cent). Under tax revenue, the major portion is anticipated from Sales Tax (Rs.179 crores or 51.3 per cent of tax revenue) followed by State Excise (Rs.66 crores or 18.9 per cent), Taxes on Vehicles (Rs.39 crores or 11.2 per cent), Stamps and Registration Fees (Rs.27 crores or 7.7 per cent) and others (Rs.39 crores or 11.2 per cent). Among the States, Maharashtra leads in ARM (Rs.167 crores) followed by West Bengal (Rs.41 crores), Karnataka (Rs.40 crores), Punjab (Rs.39 crores), Assam (Rs.34 crores), Gujarat (Rs.31 crores), Kerala (Rs.28 crores) and Rajasthan (Rs.22 crores). Table VIII-9 indicates State-wise and tax-wise ARM.

Table VIII—9: Estimated additional yield from Budget Proposals

(Rupees crores)

States	Net additional yield 1986-87
1. Assam	34.00
2. Gujarat	31.21
3. Karnataka	40.41
4. Kerala	27.90
5. Madhya Pradesh	−1.00
6. Maharashtra	166.87
7. Punjab	39.00
8. Rajasthan	21.50
9. Tamil Nadu	−20.00
10. West Bengal	40.50
Total	**380.39**
By Major Heads	
1. Sales Tax	178.83
2. Stamps and Registration Fees	27.20
3. Tax on Passengers and Goods	—
4. Tax on Vehicles	38.50
5. State Excise	65.86
6. Electricity Duty	—
7. Entertainment Tax	−5.60
8. Profession Tax	0.75
9. Other Taxes and Duties	44.00
10. Non-Tax Revenue	30.85
Total	**380.39**
States' share in Centre's additional taxation/tax concession	
1. Income Tax	7.00
2. Estate Duty	—
3. Union Excise Duty	36.00
Total	**43.00**

States' Plan Outlay

Table VIII-10 and VIII-11 show the Plan Outlay of States and Union Territories and States' outlay by Heads of Development, respectively. The outlay of the Annual Plan, 1986-87, indicates a step-up of Rs.2,290 crores to Rs. 15,351 crores or 17.5 per cent over the revised approved outlay of Rs. 13,061 crores in the previous year. Highest priority is accorded to the development of energy. Power will claim an

Table VIII—10: Plan Outlay of States and Union Territories

(Rupees crores)

States/Union Territories	Actual Expenditure for 4th Plan (1969-70 to 1973-74)	Actual Expenditure for 5th Plan (1974-75 to 1978-79)	6th Plan Approved Outlay (1980-81 to 1984-85)	Actual Expenditure for 6th Plan (1980-81 to 1984-85)	1983-84 Actual Expenditure	1984-85 Actual Expenditure	1985-86 Approved Outlay	1985-86 Revised Approved Outlay	7th Plan Approved Outlay (1985-86 to 1989-90)	1986-87 Approved Outlay
1	2	3	4	5	6	7	8	9	10	11
1. Andhra Pradesh	426	1,449	3,100	3,221	759	909	810	959	5,200	1,000
2. Assam	198	433	1,115	1,280	290	356	410	410	2,100	500
3. Bihar	479	1,185	3,225	2,949	605	710	851	955	5,100	1,150
4. Gujarat	545	1,374	3,680	3,880	883	960	804	806	6,000	950
5. Haryana	358	671	1,800	1,569	333	372	480	444	2,900	525
6. Himachal Pradesh	113	236	560	669	143	182	177	177	1,050	205
7. Jammu and Kashmir	162	376	900	919	196	233	260	278	1,400	315
8. Karnataka	374	1,039	2,265	2,665	625	683	651	651	3,500	765
9. Kerala	333	661	1,550	1,645	327	404	355	380	2,100	390
10. Madhya Pradesh	476	1,396	3,800	3,865	877	991	1,170	1,166	7,000	1,381
11. Maharashtra	1,005	2,612	6,175	6,521	1,505	1,641	1,700	1,711	10,500	2,100
12. Manipur	31	93	240	243	52	61	70	70	430	87
13. Meghalaya	36	99	235	260	59	63	75	75	440	91
14. Nagaland	39	97	210	230	52	60	65	65	400	78
15. Orissa	249	640	1,500	1,562	327	407	450	486	2,700	600
16. Punjab	428	940	1,957	1,892	429	430	500	503	3,285	575
17. Rajasthan	309	872	2,025	2,135	459	434	430	430	3,000	525
18. Sikkim	—	41	122	148	29	37	41	44	230	50
19. Tamil Nadu	552*	1,143	3,150	3,584	790	917	960	1,017	5,750	1,153
20. Tripura	35	75	245	293	72	76	86	95	440	105
21. Uttar Pradesh	1,163	2,909	5,850	6,519	1,350	1,815	1,642	1,663	10,447	2,030
22. West Bengal	364	1,230	3,500	2,433	507	551	675	676	4,125	776
A. Total All States	**7,675**	**19,571**	**47,204**	**48,482**	**10,669**	**12,292**	**12,662**	**13,061**	**78,097**	**15,351**
B. Hill Areas including Western Ghats	—	170*	560	557.33$	133.89$	160.85$	170	168.47	870	189
C. Tribal Area	—	167	470	485.50	110*	126.62	140	140.00	756	155.00
D. Total Union Territories	278	655	1,650	2,008	449	546	642	642	3,768	872
E. North Eastern Council	—	91	340	385.34	81.23	101.66	125	113.89	675	145.00
F. Border Area	—	—	—	—	—	—	—	—	200	40.00
G. Other Area Development Programmes	—	—	—	—	—	—	70	—	58	—

$ Relates to release of funds.

* The same amount as outlay released as actual expenditure is not known.

Source: Planning Commission, Government of India.

outlay of Rs.4,255 crores accounting for 27.7 per cent of total. It registers a rise of 23.7 per cent over the previous year's level. Irrigation, flood control and power together account for 47.3 per cent in the total outlay followed by Agriculture and Allied Services including Co-operation (14.4 per cent), Transport and Communications (7.3 per cent) and Industry and Minerals (5.1 per cent).

Table VIII—11: States' Plan Outlay by Heads of Developments

(Rupees crores)

Sectors	7th Plan (Approved Outlay) (1985-86 to 1989-90)	1985-86 (Revised Approved Outlay)	1986-87 (Approved Outlay)	Variation over the previous year (Col.4 over Col.3)
1	2	3	4	5
1. Agriculture and Allied Services including Co-operation (i+ii)	10468	1780	2208	+428
	(13.4)	(13.6)	(14.4)	(+24.0)
(i) Agriculture and Allied Services	9598	1643	2061	+418
	(12.3)	(12.6)	(13.4)	(+25.4)
(ii) Co-operation	870	137	147	+10
	(1.1)	(1.0)	(1.0)	(+7.3)
2. Irrigation, Flood Control and Power (i+ii)	38736	6108	7256	+1148
	(49.6)	(46.8)	(47.3)	(+18.8)
(i) Power	22786	3441	4255	+814
	(29.2)	(26.4)	(27.7)	(+23.7)
(ii) Irrigation and Flood Control	15950	2667	3001	+334
	(20.4)	(20.4)	(19.6)	(+12.5)
3. Industry and Minerals (i+ii)	3776	681	784	+103
	(4.8)	(5.2)	(5.1)	(+15.1)
(i) Village and Small Industries	1378	229	262	+33
	(1.8)	(1.7)	(1.7)	(+14.4)
(ii) Medium and large-scale industries and mining	2398	452	522	+70
	(3.0)	(3.5)	(3.4)	(+15.5)
4. Transport and Communications	5781	1049	1124	+75
	(7.4)	(8.0)	(7.3)	(+7.1)
5. Others	19336	3443	3979	+536
	(24.8)	(26.4)	(25.9)	(+15.6)
Total (1 to 5)	**78097**	**13061**	**15351**	**+2290**
	(100.0)	**(100.0)**	**(100.0)**	**(+17.5)**

Notes: Figures in brackets in column 2 to 4 are percentages to total while those in column 5 indicate percentage variation over the previous year i.e. column 4 over column 3.

Source: Planning Commission, Government of India.

III. RAILWAY FINANCES

Highlights of Budget for 1986-87

The Railway Budget for 1986-87 contains, *inter alia*, proposals for a rise of 12.5 per cent in the passenger fares of upper classes and 5 per cent to 7.5 per cent in those of second class Mail and Express trains. Freight tariffs and fares of second class ordinary trains and monthly season tickets have been kept unchanged. The Budget proposals are likely to yield an additional revenue of Rs.76 crores during 1986-87 in contrast to that of Rs.471.0 crores proposed in the last Budget. After providing for (i) a full payment of Rs.590 crores to the General Revenues, (ii) a

rise of Rs.309 crores to be financed by internal resources out of the total increase of Rs.600 crores in the Annual Plan Outlay and (iii) an enhanced provision to Depreciation Reserve Fund by Rs.330 crores, the Railways anticipate to achieve a net surplus of Rs.69.0 crores. In 1985-86 the net surplus was Rs.85.0 crores.

Estimates: 1986-87

Total receipts of Railways are estimated to reach Rs.6,996.7 crores in 1986-87 constituting an increase of Rs.510.1 crores or 7.9 per cent over the level of Rs.6,486.6 crores in the previous year (Table VIII-12). Total expenditure during 1986-87 is expected to be Rs.6,337.7 crores as against Rs.5,881.6 crores in the earlier year — a rise of Rs.456.1 crores or 7.8 per cent. The net revenue of the Railways would thus rise by Rs.54.0 crores to Rs.659.0 crores. Other expectations are: (i) the carrying of 267 million tonnes of revenue-earning freight traffic as compared with a target of 250 million tonnes set for 1985-86 which is likely to be exceeded, and (ii) a growth of 4 to 5 per cent in suburban and non suburban passenger traffic.

Table VIII-12: Financial Results of Railways

(Rupees crores)

Items	1982-83 (Actuals)	1983-84 (Actuals)	1984-85 (Actuals)	1985-86 (Budget Estimates)	1985-86 (Revised Estimates)	1986-87 (Budget Estimates)
1	2	3	4	5	6	7
I. Total Receipts	**4483.3**	**5089.1**	**5469.1**	**6287.4**	**6486.6**	**6996.7**
II. Total Expenditure	**3929.0**	**4710.1**	**5199.0**	**5701.4**	**5881.6**	**6337.7**
III. Ratio of Total Expenditure to Total Receipts	87.6	92.6	95.1	90.7	90.7	90.6
IV. Net Revenue (I-II)	554.3	379.0	270.1	586.0	605.0	659.0
V. Capital-at-Charge*	7251.1	7567.8	8285.6	8845.9	9184.1	10374.1
VI. Net Revenue as percentage of Capital-at-Charge	7.6	5.0	3.3	6.6	6.6	6.4
VII. Dividend to General Revenues§	436.0	423.7 (379.0)+	465.7 (270.1)+	512.0	520.0	590.0
VIII. Net Surplus (+)/Deficit(−) (IV-VII)	+118.3	−44.7 (—)**	−195.6 (—)**	+74.0	+85.0	+69.0
IX. Appropriation to (+) or withdrawals from (−) funds:						
(a) Development Fund	+46.4	+49.6§§	—	+63.5	+66.7	+69.0
(b) Revenue Reserve Fund	—	—	—	—	—	—
(c) Deferred Dividend Liability Account	+71.9	−44.7**	−195.6**	+10.5	+18.3	—

* Excludes Capital-at-Charge on Metropolitan Transport Projects.

§ Includes Dividend to General Revenues, payment in lieu of passenger fare tax and contribution to Railway Safety Works Fund.

\+ Represents actual payment of dividend to general Revenues.

** Shortfall in payment of dividend to General Revenues transferred to Deferred Dividend Liability Account.

§§ Appropriation by taking loan from General Revenues.

Source: Explanatory Memorandum on the Railway Budget, 1986-87.

Revised Estimates: 1985-86

According to the revised estimates for 1985-86, total receipts of Railways amounted to Rs.6,486.6 crores as against the budget anticipation of Rs.6,287.4 crores and the actual receipts of Rs.5,469.1 crores in 1984-85. This recorded a rise of Rs.199.2 crores or 3.2 per cent over budget estimates and Rs.1,017.5 crores or 18.6 per cent over the actuals of 1984-85.

Passenger earnings at Rs.1,715.0 crores and goods earnings at Rs.4,323.0 crores would be higher by Rs.71.0 crores and Rs.101.0 crores, respectively, over those budgeted in 1984-85. 'Other Coaching Earnings', 'Sundry Other Earnings' and 'Other Miscellaneous Receipts' are also estimated higher by Rs.27.2 crores during the year. The target of revenue — earning freight traffic was set at 250.0 million tonnes — about 14 million tonnes higher over the actual figure for 1984-85. The Railways expect to have carried 252.0 million tonnes of revenue-earning freight traffic during the year. The freight loading in the first nine months of 1985-86 was about 16 million tonnes more than in the corresponding period of previous year and 4 million tonnes above the target set for the full year. The rise in revenue-earning freight traffic of Railways would have been sharper but for the lower than targeted offerings from the coal sector (−5 million tonnes) and the steel sector (−1.5 million tonnes) which were more than compensated by higher than targeted loadings in respect of fertilisers (+ 2.5 million tonnes), foodgrains (+1 million tonnes) and 'Others', which include transport of petroleum products (+4.5 million tonnes).

Total expenditure of the Railways is placed at Rs.5,881.6 crores as against the budget projection of Rs.5,701.4 crores — a rise of Rs.180.2 crores or 3.2 per cent – and the actual figure of Rs.5,199.0 crores in 1984-85 – a rise of Rs.682.6 crores or 13.1 per cent. The rise in expenditure is attributed largely to post-budgetary factors such as the payment of the second instalment of interim relief, higher cost of diesel and coal, revision in electricity tariffs and payment of additional amounts for productivity-linked bonus resulting from the Government's decision in regard to ceiling limits on salary and coverage. Of the total rise of Rs.180.2 crores over budget estimates, Rs.80.0 crores is accounted for by higher expenditure on 'Repairs and Maintenance' followed by 'Operating Expenses on Fuel' (Rs.50.4 crores) and 'Miscellaneous Expenditure' (Rs.19.6 crores).

Despite the rise in expenditure, the revised estimates showed a net surplus of Rs.85 crores, a little above the budget figure of Rs.74 crores, after meeting the full payment liability of Rs.520 crores to General Revenues. During the year, by better management, the Traffic Output, i.e., Freight Tonne Kilometres plus Passenger Kilometres per employee, is expected to have increased to 2.66 lakh Traffic Units as compared to 2.55 lakh Traffic Units in 1984-85. With this and strict financial discipline, a higher net revenue (total receipts − total expenditure) at Rs.605.0 crores is expected – an increase of Rs.19 crores above the budgeted figure of Rs.586.0 crores and Rs.334.9 crores higher as compared with 1984-85.

Performance in 1985-86

There was an all-round improvement in the working of the Railways in 1985-86. A quantum jump in the traffic cleared by the Railways was achieved in spite of the wagon fleet remaining more or less the same. The transport output as measured in Net Tonne Kilometres in the first nine months of 1985-86 increased by 14 per cent over the corresponding period of the previous year. The leading Efficiency Indicator, viz., Net Tonne Kilometres per Wagon per Day (Broad Gauge), improved by 10.5 per cent from 1,104 in April-December 1984 to 1220 in April-December 1985, which was a new record. All railway production units either achieved or exceeded their targets. Track renewals touched a new high. A number of innovative passenger amenities were introduced such as computerised reservation, railway catering and simplification of refund rules. The ratio of total expenditure to total receipts recorded a significant improvement by declining from 95.1 per cent in 1984-85 to 90.7 per cent during 1985-86 reflecting better financial performance. This resulted in achieving a higher net surplus during 1985-86 than anticipated at the time of budget presentation, inspite of post-budgetary increases in the cost of inputs.

Developmental Expenditure — 1985-86

The Seventh Five-Year Plan provides for an outlay of about Rs.12,334 crores at 1984-85 prices for the Railways. The Plan envisages

more than 50 per cent of resources being generated internally by the Railways against an average of about 42 per cent in the Sixth Plan. During the Plan, it is proposed to procure 96000 wagons, 6970 passenger coaches, 950 electrical multiple units and 1235 diesel/electrical locomotives, undertake approximately 20000 kilometres of track renewals and electrify 3400 route kilometres.

The initial Annual Plan outlay for Railways for 1985-86 was fixed at Rs.1,650 crores which was subsequently raised to Rs.2,050 crores in December 1985. Of this Rs.1,061 crores (52 per cent) was met by the Railways from their internal resources while the remaining Rs.989 crores came as budgetary support from General Revenues. The contribution to Depreciation Reserve Fund is expected to have been at Rs.920 crores as against Rs.850 crores in 1984-85. The total developmental expenditure of Railways during 1985-86 was Rs.2,050.0 crores as against Rs.1,664.3 crores in the previous year. (Table VIII-13). The major items of developmental expenditure during 1985-86 were: Rolling Stock (Rs.673.9 crores), Traffic Facilities (Rs.183.5 crores), Track Renewals, (Rs.591.8 crores), Electrification (Rs.221.7 crores), construction of new lines (Rs.70.9 crores) and outlay on workshops including Production Units (Rs.115.0 crores). The expenditure on metropolitan transport projects was Rs.90.7 crores.

Table VIII—13: Developmental Expenditure of Railways

(Rupees crores)

Items	Total Outlays in 6th Five Year Plan (1980-81 to 1984-85)	1984-85 (Actuals)	1985-86 (Budget Estimates)	1985-86 (Revised Estimates)	1986-87 (Budget Estimates)
1	2	3	4	5	6
1. Rolling Stock	2424.2	555.2	668.4	673.9	893.4
2. Traffic Facilities†	787.5	208.7	189.4	183.5	266.3
3. Track Renewals	1282.8	395.9	594.6	591.8	710.6
4. Electrification	467.2	147.1	230.2	221.7	207.4
5. New Lines	323.3	96.3	65.1	70.9	100.0
6. Signalling & Telecommunication Works	151.5	35.5	60.6	61.6	62.0
7. Staff Quarters	60.5	16.4	13.0	13.1	25.0
8. Plant and Machinery	203.9	63.4	55.0	55.6	65.0
9. Workshop including production unit	402.3	77.7	115.4	115.0	214.0
10. Computerisation	—	—	—	—	44.0
11. Investment in Government Commercial Undertakings — Road Services	84.4	*	*	*	*
12. Others§	397.8	68.1	58.3	62.9	62.3
Of which: Metropolitan Transport Projects	280.8	76.3	90.0	90.7	90.0
Total (1 to 12)	**6585.4**	**1664.3**	**2050.0**	**2050.0**	**2650.0**

* From 1983-84 onwards this item is excluded from the Railway budget and will be shown in the budget of the Ministry of Shipping and Transport.

§ Includes suspense and credit for released materials.

† Includes restoration and dismantled lines, gauge conversion, doubling, yard remodelling, etc.

Source: Explanatory Memorandum on Railway Budget, 1985-86.

Financial Effect of Social Obligations: 1985-86

Indian Railways constitute a public utility service. Hence they have a social obligation to transport essential commodities and raw materials at rates which do not fully cover the cost of transportation. Also, relief supplies to the areas affected by natural calamities are carried free of charge. Further, the Railways sustain losses in the operation of suburban and short-distance passenger services on certain branch lines.

In 1985-86, the financial cost on account of social obligations is estimated to have risen by Rs.52.3 crores or 4.9 per cent to Rs.1,121.2 crores as against Rs.1,068.9 crores in the preceding year (Table VIII-14). The loss accounted for by coaching services (suburban and non-suburban passenger traffic, parcels, luggage, etc.), was Rs.948.7 crores recording a rise of Rs.53.4 crores over the year. On the other hand, the loss on account of low-rated freight like foodgrains, salt, fodder, charcoal, fruits, firewood, etc., was marginally lower at Rs.172.5 crores as against Rs.173.6 crores in 1984-85.

The ratio of the financial cost of the social obligations to total receipts was however, lower at 17.3 per cent as compared with 19.5 per cent in 1984-85. In relation to total expenditure, it was 19.1 per cent against 20.6 per cent in the previous year.

Table VIII—14: Financial cost of Social Obligations on Indian Railways

(Rupees crores)

Items	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86 (Estimates)
1	2	3	4	5	6	7	8
1. Loss on Coaching Services (Suburban and non-Suburban passenger traffic, parcels, luggage etc.)	183.8 (73.3)	287.2 (68.3)	380.8 (78.5)	540.8 (83.8)	662.6 (82.4)	895.3 (83.8)	948.7 (84.6)
2. Loss on low-rated freight like Coal, Foodgrains, Fodder, Charcoal, Firewood, Fruits and Vegetables, etc.	66.8 (26.6)	133.5 (31.7)	104.2 (21.5)	104.5 (16.2)	141.7 (17.6)	173.6 (16.2)	172.5 (15.4)
3. Loss on Freight Concessions on relief measures	0.1 (—)	—	—	—	—	—	—
4. Total (1+2+3)	250.7 (100.0)	420.7 (100.0)	485.0 (100.0)	645.3 (100.0)	804.3 (100.0)	1068.9 (100.0)	1121.2 (100.0)
5. Total Receipts	2404.4	2703.5	3627.8	4483.3	5089.1	5469.1	6486.6*
6. Total Expenditure	2177.1	2576.0	3224.7	3929.0	4710.1	5199.0	5881.6*
7. Percentage of item (4) to item (5)	10.4	15.6	13.4	14.4	15.8	19.5	17.3
8. Percentage of item (4) to item (6)	11.5	16.3	15.0	16.4	17.1	20.6	19.1

* Revised Estimates.
— Negligible
Note: Figures within brackets are percentage to totals.
Sources: 1. Indian Railway Year Book 1983-84 and 1984-85.
2. Explanatory Memorandum on the Railway Budget, 1986-87.

Budget Estimates: 1986-87

The Railways propose to lift 294 million tonnes of freight traffic, including 267 million tonnes of revenue-earning traffic, in contrast to the target of 277 million tonnes and 250 million tonnes, respectively, in 1985-86. With an average lead of about 680 kilometres, the Railways hope to achieve 200 million tonnes kilometres of goods traffic in 1986-87. A growth of 4 to 5 per cent in suburban and non-suburban passenger traffic is also envisaged. A large portion of the

rise of revenue-earning traffic is anticipated in the coal sector (10 million tonnes) followed by the steel and the cement sector (2.5 million tonnes each).

The total receipts of Railways during 1986-87, inclusive of the anticipated increase in proposed fares, are expected to be Rs.6,996.7 crores — an increase of Rs.510.1 crores or 7.9 per cent over the likely realisation in 1985-86. An amount of Rs.303.0 crores or 59.4 per cent of the increase is estimated under goods traffic, the receipts from which are envisaged to be Rs.4,626.0 crores. Passenger earnings would go up by Rs.161.0 crores to Rs.1,876.0 crores as, against the level of Rs.1,715.0 crores in the previous year. The balance of the increase amounting to Rs.46.1 crores is expected to accrue through 'Other Coaching Earnings', 'Miscellaneous Receipts', 'Sundry Earnings', etc.

Total expenditure of Railways during 1986-87 at Rs.6,337.7 crores would be higher by Rs.456.1 crores or 7.8 per cent over the revised estimates of 1985-86. The ordinary working expenditure is estimated at Rs.4,700 crores providing for an increase of Rs.87 crores over the revised estimates of 1985-86. This, among other things, is due to the expenditure arising out of increased activity in carrying more traffic. Expenditure on repairs and maintenance is estimated at Rs.1,878.8 crores — higher by Rs.20.9 crores or 1.1 per cent over the previous year. Operating expenses on fuel would go up by Rs.28.3 crores or 2.7 per cent to Rs.1,083.7 crores. Of the total rise of Rs.456.1 crores, an increase of Rs.330 crores is proposed in the provision for Depreciation Reserve Fund which rises from Rs.920 crores in 1985-86 to Rs.1,250 crores in 1986-87 with a view to enabling a faster clearance of arrears of the backlog in renewal of track signalling, telecommunications equipment and overaged rolling stock. Appropriation to Pension Fund is also raised upwards from Rs.265.0 crores in 1985-86 to Rs.286.0 crores in 1986-87.

With a substantial increase in total receipts and economy in working expenditure through efficient management of manpower and other resources, the net revenue of the Railways is anticipated to rise by Rs.54.0 crores or 8.9 per cent to Rs.659.0 crores on top of a rise of Rs.334.9 crores in 1985-86. As a result, after providing for Rs.590.0 crores as full payment to General Revenues in 1986-87, there will be a surplus of Rs.69.0 crores against Rs.85.0 crores in 1985-86 when Rs.520.0 crores was the full payment made to the General Revenues. The return on capital (i.e. capital-at-charge) before the payment of dividend to General Revenues is expected to decline to 6.4 per cent from 6.6 per cent in 1985-86. The ratio of total expenditure to total receipts is anticipated, however, to decline by 0.1 per centage point to 90.6 per cent after the sharp decline from 95.1 per cent in 1984-85 to 90.7 per cent in 1985-86. The total indebtedness of Railways to the General Revenues under the Development Fund and Deferred Dividend Liability together is estimated higher at Rs.878.3 crores against Rs.863.3 crores in 1985-86.

Developmental Expenditure — 1986-87

For 1986-87, the second year of the Seventh Five-Year Plan, the Railways are allocated a Plan outlay of Rs.2,650 crores against Rs.2,050 crores in the previous year. Of this, Rs.1,370 crores (51.7 per cent) will be met by the Railways from their internal resources against Rs.1,061 crores (51.8 per cent) in the previous year. It is also contemplated for the first time to raise Rs.250 crores through public borrowings. The major developmental items of expenditure are: rolling stock (Rs.893.4 crores), track renewals (Rs.710.6 crores), traffic facilities (Rs.266.3 crores), electrification (Rs.207.4 crores), workshop including production units (Rs.214.0 crores) and new lines (Rs.100.0 crores) (Table VIII-13). Emphasis will continue to be placed on the renewal and replacement of overaged assets for which a provision of Rs.1,250 crores is made as compared with Rs.970 crores in the previous year. The programme for acquisition of new wagons envisages 20,000 four-wheeler units as against 12,500 units in 1985-86. Sixty two kilometres of new lines are expected to be completed during 1986-87. About 730 route kilometres are expected to

be energised in 1986-87 against the likely achievement of 430 route kilometres during 1985-86.

In view of the limited allocation of resources, the Railways do not propose to create any substantial additional capacity for the movement of passenger traffic. Improvement in passenger services will be effected through the rationalisation of links, reduction in lie-over period and better scheduling of train timings. The computerisation of railway reservations has been taken up in a big way. The Railways expected to complete the computerisation of reservation arrangements in respect of all trains in New Delhi by March 1986. Similar arrangements are proposed to be taken up in 1986-87 in Calcutta and Bombay and a year later in Madras. An ambitious plan for the computerisation of freight operations has also been taken up at an estimated cost of Rs.520 crores.

Budget Proposals: 1986-87

At the 1985-86 level of fares and freight rate structure, the Railways' revenues budgeted for 1986-87 would be inadequate to meet the full payment liability and contribution to Development Fund. Therefore, to meet the obligation in full, some increases have been made in passenger fares. These, along with other measures, would yield an additional revenue of Rs.76.0 crores in 1986-87 against Rs.471.0 crores of additional revenue proposed in the budget for 1985-86.

With a view to contributing to the national efforts towards growth with price stability, the Railways have not proposed to revise the tariff on the carriage of goods and parcels. Further, keeping in view the interest of low-income groups and commuters, the fares for second class ordinary trains and monthly season tickets have not been increased. The features of the revisions in passenger fares are enumerated below:

1. Fares of second class Mail and Express trains were increased by 7.5 per cent up to 250 kms. but only by 5 per cent on distances beyond 250 kms. subject to a minimum increase of Re 1/- per ticket. A higher increase in the fares upto 250 kms. and a lower increase beyond this limit in Mail and Express trains was made on the consideration that, as an integrated transport policy, the short-distance passenger traffic should normally move either by road or by ordinary trains leaving more room on fast Mail and Express trains for long-distance passengers.

2. The surcharge on second class sleeper berths was continued at the existing rate of Rs. 10 per journey up to a distance of 500 kms. It was raised to Rs. 15 per journey for a distance more than 500 kms.

3. A rise of 12.5 per cent was made in the fares of air-conditioned chair car, first class, A.C. two-tier sleeper and air-conditioned first class. The same rate of increase was applied to the special fares of all classes in Rajdhani Express trains.

4. The surcharge on A.C. two-tier sleeper was raised as follows: For distances from 1 – 500 kms. by Rs.5/-; for distances from 501 to 1000 kms. by Rs.10/-; for distances from 1,001 to 1,500 kms. by Rs.15/-and for distances from 1,501 kms. and beyond, by Rs.20/-.

Concessions to Youth

Concessions to youth for second class travel given during the 'International Year of the Youth, 1985' are retained during 1986-87 by continuing the concession of 25 per cent in second class passenger fares to youth of the age group of 13 to 33 years, on providing satisfactory proof of age, while travelling in groups of a minimum of 10, for a distance over 1000 kms.

IV. FINANCES OF DEPARTMENT OF POSTS AND DEPARTMENT OF TELECOMMUNICATIONS

The reviews of the finances of the Department of Posts (DP) and the Department of Telecommunications (DT) are presented in the following paragraphs.

A. Department of Posts (DP) (Revised Estimates 1985-86)[15]

The setback to the finances of DP observed in 1984-85 continued in 1985-86. Although total revenue receipts increased by Rs.55.6 crores (+12.5 per cent) to Rs.500 crores, net revenue receipts deteriorated further indicating a decline by Rs.65 crores (−52.3 per cent) to Rs.(−)189.3 crores in 1985-86. There were no contributions either towards capital expenditure or dividend payable to General Revenues. The dividend to General Revenues had been Rs.11.8 crores in 1984-85. The net deficit of Rs.189.3 crores was larger by 39.1 per cent over the previous year. This was due to the fact that net working expenses increased substantially during the year to Rs.689.3 crores (+Rs.120.6 crores, +21.2 per cent). The tariff structure of Postal Services remained unchanged during the period under review.

The total working expenses in 1985-86 at Rs.781.9 crores showed an increase by Rs.145.8 crores (+22.9 per cent) over the previous year. Of the total expenses, Operational Expenses amounted to Rs.565.1 crores in 1985-86 against Rs.463.0 crores during the previous year (+22.1 per cent). It constituted a share of 72.3 per cent in total expenses of 1985-86. Among the other items of expenditure, General Administration accounted for Rs.55.3 crores (+8.9 crores), Agency Services Rs.26.6 crores (+1.7 crores), Engineering Rs.13.2 crores (+Rs.1.8 crores) and Pension Rs.46.8 crores (+Rs.9.7 crores).

After taking into account credits to working expenses of Rs.96.2 crores, net working expenses at Rs.689.3 crores were larger than those of 1984-85 (+Rs.120.6 crores, +21.2 per cent) (Table VIII-15).

Consequent on the constitution of two distinct Departments, viz. DP and DT, the deficits in the working results of the DP are to be borne by General Revenues from 1985-86. The credit for dividend payable to General Revenues from 1985-86 is, therefore, taken from the newly created DT.

Capital outlay of DP at Rs.37.1 crores in 1985-86 was marginally higher than that in the previous year (+Rs.2.1 crores, +6.0 per cent). The entire amount of the outlay was related to Plan expenditure. Among the financing items of capital outlay, capital advanced from General Revenues accounted for a large share of Rs.34.1 crores or 91.9 per cent in 1985-86, against an equally large share of Rs.32.1 crores or 91.7 per cent during 1984-85. The amount of depreciation on Historical Costs transferred from revenue stood at Rs.3.0 crores. It was almost at the same level during 1984-85 (Table VIII-16).

Budget Estimates (1986-87)[16]

In the Budget for 1986-87, the total revenue receipts of DP are larger at Rs.550.0 crores (+Rs.50.0 crores, + 10.0 per cent). Net revenue receipts will decline further by Rs.34.3 crores (− 18.1 per cent) to Rs.(−)223.6 crores due to a substantial rise budgeted in the working expenses of the Department. They will increase by Rs.93.6 crores (+12.0 per cent) to Rs.875.5 crores. After adjusting credits to working expenses by Rs.101.9 crores, net working expenses will amount to Rs.773.6 crores (+Rs.84.3 crores, +12.2 per cent). Of the total expenses, Operational Expenses will be Rs.628.8 crores and General Administration will cost Rs.61.1 crores. Both these items together constitute **78.8 per cent of the working expenses. The increase in total expenses will be due to higher operational costs, larger expenditure on Pension and Stationery and Printing. The deficit of the Department will, therefore, emerge higher at Rs.223.6 crores or by 18.1 per cent.**

15. The absolute and percentage variations of 1985-86 over 1984-85 given in brackets are based on the revised estimates of the former and the actuals of the latter.

16. Absolute and percentage variations in brackets relate to 1986-87 (BE) over 1985-86 (RE).

Table VIII—15: Financial Working of Department of Posts*

(Rupees crores)

Items	1983-84 (Actuals)	1984-85 (Actuals)	1985-86 (Budget Estimates)	1985-86 (Revised Estimates)	1986-87 (Budget Estimates)
1	2	3	4	5	6
1. Revenue Receipts	434.6	444.4	520.0	500.0	550.0
2. Working Expenses	572.6	636.1	790.0	781.9	875.5
Of which:					
(i) Operation	417.6	463.0	570.3	565.1	628.8
(ii) Agency Services	21.1	24.9	32.5	26.6	29.6
(iii) General Administration	41.2	46.4	58.0	55.3	61.1
(iv) Engineering	9.8	11.4	12.1	13.2	13.6
(v) Pension	32.9	37.1	47.6	46.8	57.0
(vi) Accounts and Audit	13.5	14.9	18.8	18.3	20.8
(vii) Stationery and Printing	28.1	28.7	40.0	45.7	52.6
(viii) Depreciation	2.1	2.2	3.1	3.0	3.7
(ix) Others	6.3	7.5	7.6	7.9	8.3
3. Credits to Working Expenses	64.8	67.4	83.2	92.6	101.9
4. Net Working Expenses (2-3)	507.8	568.7	706.8	689.3	773.6
5. Net Receipts (1-4)	−73.2	−124.3	−186.8	−189.3	−223.6
6. Dividend to General Revenues	9.1	11.8	—	—	—
7. Surplus(+)/Deficit(−) before making contributions towards Capital Expenditure (5-6)	**−82.3**	**−136.1**	**−186.8**	**−189.3**	**−223.6**
8. Contribution towards Capital Expenditure	—	—	—	—	—
9. Surplus(+)/Deficit(−) after making contributions towards capital Expenditure (7-8)	**−82.3**	**−136.1**	**−186.8**	**−189.3**	**−223.6**
10. Appropriations to (+) or Withdrawals from (−) £					
(a) Revenue Reserve Fund	−82.3	−136.1	—	—	—
(b) Capital Reserve Fund	—	—	—	—	

* The erstwhile combined Posts and Telegraphs Department has been bifurcated into Department of Posts and Department of Telecommunications with effect from 31.12.1984.

£ Consequent on the constitution of two distinct departments, viz. Department of Posts and Department of Telecommunications —

(1) the deficit in the working results of the Department of Posts is borne by General Revenues of the Central Government from the year 1985-86 and

(2) the surplus transferred to P&T Revenue Reserve Fund and Capital Reserve Fund and withdrawals from Capital Reserve Fund from 1985-86 entirely relate to Telecommunications.

Sources: *(i)* Explanatory Memoranda on the Budget of the Central Government.
(ii) Annual Reports of the Department of Posts.
(iii) The Ministry of Communications, Government of India.

B. Department of Telecommunications (DT) (Revised Estimates 1985-86)[17]

The finances of DT witnessed an improvement during 1985-86. The total revenue receipts of DT showed a substantial increase during 1985-86. It rose from Rs.1,191.3 crores in 1984-85 to Rs.1,360.0 crores in 1985-86 (+Rs.168.7 crores, +14.2 per cent). Net revenue receipts rose by a lower margin of Rs.54.6 crores to Rs.435.0 crores. There was no contribution towards capital expenditure in 1985-86 as in the preceding year. After adjusting payment of dividend to General Revenues the net surplus

17. Absolute and percentage variations in the brackets relate to 1985-86 (RE) over 1984-85 (Actuals).

Table VIII—16: Capital Outlay of Department of Posts*

(Rupees crores)

Items	1983-84 (Actuals)			1984-85 (Actuals)			1985-86 (Budget Estimates)			1985-86 (Revised Estimates)			1986-87 (Budget Estimates)		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Expenditure	**31.8**	—	**31.8**	**35.0**	—	**35.0**	**35.5**	—	**35.5**	**37.1**	—	**37.1**	**36.3**	—	**36.3**
2. Financed from:															
(i) Receipts and Recoveries on (a+b)	0.1	—	0.1	—	0.1	0.1	—	—	—	—	—	—	—	—	—
(a) Capital Account	0.1	—	0.1	—	0.1	0.1	—	—	—	—	—	—	—	—	—
(b) Under Stores Suspense	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(ii) Capital Reserve Funds £	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(iii) Depreciation on Historical Costs transferred from Revenue	2.0	—	2.0	—	2.8	2.8	—	3.5	3.5	—	3.0	3.0	—	3.7	3.7
(iv) Contribution towards Capital Expenditure from Revenue	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(v) Capital advanced from the General Revenues	29.7	—	29.7	35.0	−2.9	32.1	35.5	−3.5	32.0	37.1	−3.0	34.1	36.3	−3.7	32.6
Total (i to v)	**31.8**	—	**31.8**	**35.0**	—	**35.0**	**35.5**	—	**35.5**	**37.1**	—	**37.1**	**36.3**	—	**36.3**

* The erstwhile combined Posts and Telegraphs Department has been bifurcated into Department of Posts and Department of Telecommunications with effect from 31.12.1984.

£ Consequent on the constitution of two distinct departments, viz., Department of Posts and Departments of Telecommunications, the surplus transferred to P&T Revenue Reserve Fund and Capital Reserve Fund and withdrawals from the Capital Reserve Fund from 1985-86 entirely relate to Telecommunications.

Source: *(i)* Explanatory Memoranda on the Budgets of the Central Government.
(ii) Annual Reports of the Department of Posts.
(iii) Ministry of Communications, Government of India.

amounted to Rs.268.8 crores (+Rs.11.5 crores, +4.5 per cent). In 1984-85, net surplus had declined by Rs.1.5 crores over 1983-84.

The total working expenses of the Department in 1985-86 at Rs.1,005 crores indicated a spurt by Rs.133.3 crores or 15.3 per cent over the previous year. The major portion of expenses was on account of Engineering which stood at the level of Rs.431.4 crores (+Rs.55.8 crores) followed by operational expenses to the extent of Rs.236.5 crores (+Rs.24.0 crores). These two major items of expenditure accounted for 66.5 per cent of the total working expenses of the Department. Other important items of expenses were : General Administration Rs.88.0 crores (+12.7 crores), pension Rs.42.2 crores (+Rs.5.9 crores) and Stationery and Printing Rs.159.5 crores (+Rs.27.3 crores). Net working expenses amounted to Rs.925.0 crores after adjusting credit to working expenses (+Rs.114.1 crores, +14.1 per cent). Dividend payable to General Revenues was Rs.166.2 crores which was significantly larger than Rs.123.1 crores in 1984-85 (+Rs.43.1 crores, +35.0 per cent) (Table VIII-17). The

Table VIII—17: Financial Working of Department of Telecommunications*

(Rupees crores)

Items	1983-84 (Actuals)	1984-85 (Actuals)	1985-86 (Budget Estimates)	1985-86 (Revised Estimates)	1986-87 (Budget Estimates)
1.	2.	3.	4.	5.	6.
1. Revenue Receipts	**1,028.1**	**1,191.3**	**1,360.0**	**1,360.0**	**1,370.0**
2. Working Expenses	**736.8**	**871.7**	**990.0**	**1,005.0**	**999.5**
of which:					
(i) Operation	176.0	212.5	221.3	236.5	234.5
(ii) General Administration	62.6	75.3	85.0	88.0	85.3
(iii) Engineering	324.4	375.6	436.3	431.4	393.9
(iv) Pension	31.1	36.3	40.2	42.2	48.5
(v) Accounts and Audit	6.7	7.8	9.0	8.6	9.2
(vi) Stationery & Printing	6.9	7.3	10.5	10.8	10.3
(vii) Depreciation	107.9	132.2	159.3	159.5	191.2
(viii) Others	21.2	24.6	28.4	28.0	26.6
3. Credits to Working Expenses	55.4	60.8	93.0	80.0	95.0
4. Net Working Expenses (2-3)	681.4	810.9	897.0	925.0	904.5
5. Net Receipts (1-4)	346.7	380.4	463.0	435.0	465.5
6. Dividend to General Revenues	87.9	123.1	155.1	166.2	191.7
7. Surplus(+)/Deficit(−) before making contributions towards Capital Expenses (5-6)	**+258.8**	**+257.3**	**+307.9**	**+268.8**	**+273.8**
8. Contributions towards Capital Expenditure	—	—	—	—	—
9. Surplus(+)/Deficit(−)after making contributions towards Capital Expenditure (7-8)	**+258.8**	**+257.3**	**+307.9**	**+268.8**	**+273.8**
10. Appropriations to (+) or Withdrawals from (−) £					
(a) Revenue Reserve Fund	+83.8	+136.3	neg.	neg.	+0.3
(b) Capital Reserve Fund	+175.0	+121.0	+307.9	+268.8	+273.5

* The erstwhile combined Posts and Telegraphs Department has been bifurcated into Department of Posts and Department of Telecommunications with effect from 31.12.1984.

£ Consequent on the constitution of two distinct departments viz., Department of Posts and Department of Telecommunications, the surplus transferred to P & T Revenue Fund and Capital Reserve Fund and withdrawals from Capital Reserve Fund from 1985-86 entirely relate to Telecommunications.

Sources: (1) Explanatory Memoranda on the Budgets of the Central Government.
(2) Annual Report of the Department of Telecommunications.
(3) Ministry of Communications, Government of India.

surplus of the Department moved up to Rs.268.8 crores during the year under review from Rs.257.3 crores in 1984-85 (+Rs.11.5 crores, +4.5 per cent). The entire surplus was appropriated towards Capital Reserve Fund. Consequent on the establishment of two separate Departments, the surplus transferred to P & T Revenue Reserve Fund and Capital Reserve Fund and withdrawals from Capital Reserve Fund from 1985-86 entirely relate to DT.

The capital outlay of DT stood at Rs.945.6 crores. This was higher by Rs.85 crores over the outlay in 1984-85. Of the total amount of Rs.945.6 crores, Rs.811.0 crores was allotted for Plan expenditure on Telecommunications Services and Rs.134.6 crores for non-Plan expenditure under 'Stores Suspense'. As against this, Rs.724.7 crores had been allotted for Plan expenditure on Telecommunications Services and Rs.135.9 crores for non-Plan expenditure under 'Stores Suspense' in 1984-85. The total outlay (Plan and Non-plan) was financed from Capital Reserve Fund to the extent of Rs.277.0 crores or 29.3 per cent during the year under review as compared with Rs.128.8 crores or 15.0 per cent in 1984-85. The other two items under the head 'Receipts and Recoveries' on 1) Capital Account and 2) 'Stores Suspense' together accounted for Rs.132.9 crores or 14.1 per cent as against a lower amount of Rs.56.2 crores or 6.5 per cent in 1984-85. The amount received from capital advanced from General Revenues declined substantially to Rs.317.0 crores against Rs.492.9 crores in 1984-85. However, it covered one-third of the total outlay (33.5 per cent) (Table VIII-18).

Budget Estimates (1986-87)[18]

Total revenue of the Department is budgeted to rise marginally by Rs.10.0 crores to reach a level of Rs.1,370.0 crores during 1986-87. Net revenue will be Rs.465.5 crores during 1986-87 as against Rs.435.0 crores in the revised estimates of the last year (+Rs.30.5 crores, +7.0 per cent).

The working expenses are expected to decline Rs.999.5 crores from Rs.1,005.0 crores in 1985-86 due to an estimated fall in expenses on Engineering and Operations by Rs.37.5 crores and Rs.2.0 crores, respectively. The amount to be realised from credits to working expenses will be enhanced by Rs.15 crores to Rs.95 crores. Consequently, net working expenses will decline to Rs.904.5 crores resulting in higher net receipts at Rs.465.5 crores (+Rs.30.5 crores, +7.0 per cent). After making a contribution towards dividend to General Revenues to the extent of Rs.191.7 crores, the Department has budgeted to earn a surplus of Rs.273.8 crores showing a marginal increase of Rs.5 crores (1.9 per cent) over the revised estimates of 1985-86.

Total capital outlay of DT will be Rs.917.0 crores, of which, Rs.782.0 crores relate to Plan expenditure and Rs.135.0 crores to non-Plan expenditure. The total expenditure indicates a decline by Rs.28.6 crores (−3.0 per cent) over the previous year. The capital outlay will be financed from receipts on account of 'Store Suspense' and issue of Bonds by Metropolitan Telephone Corporations amounting to Rs.118.0 crores and Rs.280.0 crores, respectively. Taken together, they will be Rs.398 crores or 43.4 per cent of the total capital outlay. The Capital Reserve Fund shares the expenditure burden to the extent of Rs.282.0 crores and the amount to be realised from depreciation on Historical Costs transferred from General Revenues will be Rs.191.3 crores.

Seventh Plan Targets (1985-1990)

During the Seventh Plan the total outlay for DT is Rs.4,530.0 crores and for DP it is Rs.295.0 crores. In the case of Posts and Telegraphs as a whole, the gross surplus is estimated at Rs.1729.0 crores comprising Rs.2482.0 crores from the telecommunications wing and Rs.(−)753.0 crores from the postal wing, based on the anticipated growth of Telecommunications and Postal Services during the Plan period.

18. Absolute and percentage variations in brackets relate to 1986-87 (BE) over 1985-86 (RE).

Table VIII—18: Capital Outlay of the Department of Telecommunications*

(Rupees crores)

Items	1983-84 (Actuals)			1984-85 (Actuals)			1985-86 (Budget Estimates)			1985-86 (Revised Estimates)			1986-87 (Budget Estimates)		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Expenditure (a+b)	**641.6**	**70.7**	**712.3**	**724.7**	**135.9**	**860.6**	**775.0**	**134.6**	**909.6**	**811.0**	**134.6**	**945.6**	**782.0**	**135.0**	**917.0**
(a) Telecommunications Services	641.6	—	641.6	724.7	—	724.7	775.0	—	775.0	811.0	—	811.0	782.0	—	782.0
(b) Under Stores and Manufacture Suspense	—	70.7	70.7	—	135.9	135.9	—	134.6	134.6	—	134.6	134.6	—	135.0	135.0
Financed from:															
(i) Receipts & Recoveries on (a+b+c)	0.2	64.7	64.9	0.9	55.3	56.2	0.3	121.6	121.9	0.3	132.6	132.9	280.7	118.0	398.7
(a) Capital Account	0.2	—	0.2	0.9	—	0.9	0.3	—	0.3	0.3	—	0.3	0.7	—	0.7
(b) Under Stores Suspense	—	64.7	64.7	—	55.3	55.3	—	121.6	121.6	—	132.6	132.6	—	118.0	118.0
(c) Bonds of Metropolitan Telephone Corporations	—	—	—	—	—	—	—	—	—	—	—	—	280.0	—	280.0
(ii) Advance Rentals received under O.Y.T. and other Schemes	22.8	—	22.8	35.2	—	35.2	40.0	—	40.0	50.0	—	50.0	30.0	—	30.0
(iii) Deposit received under Telex Deposit Scheme	—	—	—	13.9	—	13.9	6.0	—	6.0	7.9	—	7.9	3.0	—	3.0
(iv) Capital Reserve Fund £	177.0	6.0	183.0	48.2	80.6	128.8	303.0	13.0	316.0	275.0	2.0	277.0	265.0	17.0	282.0
(v) Depreciation on Historical Costs transferred from Revenue	110.0	—	110.0	133.6	—	133.6	160.7	—	160.7	160.8	—	160.8	191.3	—	191.3
(vi) Contributions towards Capital Expenditure from Revenue	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
(vii) Capital advanced from the General Revenues	331.6	—	331.6	492.9	—	492.9	265.0	—	265.0	317.0	—	317.0	12.0	—	12.0
Total (i to vii)	**641.6**	**70.7**	**712.3**	**724.7**	**135.9**	**860.6**	**775.0**	**134.6**	**909.6**	**811.0**	**134.6**	**945.6**	**782.0**	**135.0**	**917.0**

* The erstwhile combined Posts and Telegraphs Department has been bifurcated into Department of Posts & Department of Telecommunications with effect from 31.12.1984.

£ Consequent on the constitution of two distinct departments, viz., Department of Posts & Department of Telecommunications, the surplus transferred to P & T Revenue Reserve Fund and Capital Reserve Fund and withdrawals from the Capital Reserve Fund from 1985-86 entirely relate to Telecommunications.

Sources: (1) Explanatory Memoranda on the Budgets of the Central Government.
(2) Annual Report of the Department of Telecommunications.
(3) Ministry of Communications, Government of India.

V. PUBLIC DEBT AND OTHER LIABILITIES

A. Central Government

The outstanding aggregate liabilities of the Central Government comprising public debt and other liabilities were placed at Rs.1,38,281 crores at the end of March 1986 registering a larger increase of Rs.24,840 crores (+21.9 per cent) as compared with a rise of Rs.18,180 crores (+19.1 per cent) in the previous year.[19] They are budgeted to be Rs.1,62,761 crores as on March 31, 1987, showing an increase of Rs.24,480 crores (+17.7 per cent) over the previous year (Table VIII-19).[20] The outstanding aggregate liabilities at the end of March 1986 formed 57.8 per cent of the Gross Domestic Product (GDP) at Current Market Prices as against 53.2 per cent in the previous year.

The share of public debt in the aggregate liabilities declined from 66.3 per cent at the end of March 1985 to 64.2 per cent at the end of March 1986. It would decline further to 62.4 per cent at the end of March 1987. Internal debt formed 79.3 per cent of public debt at the end-March 1986 as compared to 77.9 per cent in the previous year. At end-March 1987 its proportion is, however, estimated to be almost at the same level as at the end of March 1986.

Public Debt

The outstanding public debt comprising internal debt and external debt (including loans from IMF Trust Fund) amounted to Rs.88,770 crores witnessing a comparatively larger rise of Rs.13,596 crores (+18.1 per cent) at the end-March 1986 as against an increase of Rs.9,791 crores (+15.0 per cent) in the previous year. It is, however, estimated to reach an amount of Rs.1,01,592 crores at end-March 1987 recording an increase of Rs.12,822 crores (+14.4 per cent) over end-March 1986. As a proportion of GDP at Current Market Prices, outstanding public debt formed 37.1 per cent at end-March 1986 as compared with 35.3 per cent in the previous year.

External Debt

The external debt (including loans from IMF Trust Fund) of the Central Government was placed at Rs.18,342 crores at the end of March 1986 registering a rise of Rs.1,705 crores (+10.2 per cent). As against this, there was a rise of Rs.1,517 crores (+10.0 per cent) in the previous year. It is budgeted to be Rs.20,949 crores at end-March 1987 recording a rise of Rs.2,607 crores (+14.2 per cent). As a proportion to GDP at Current Market Prices external debt formed 7.7 per cent at end-March 1986 as against 7.8 per cent a year earlier. Loans from the IMF Trust Fund which were extended to the Government of India in August 1980 to provide balance of payments assistance were placed at Rs.471 crores at end-March 1986 after making provision for the repayment of Rs.66 crores during the year. Taking into account a further repayment of Rs.132 crores they are estimated to be Rs.339 crores at end-March 1987. The Budget for 1986-87 assumes gross receipts of Rs.3,378 crores from external loans as against Rs.2,324 crores during 1985-86. After taking into account the repayment of loans of Rs.618 crores and Rs.771 crores, net receipts under external loans are placed at Rs.1,706 crores and Rs.2,607 crores during 1985-86 and 1986-87 respectively.

Internal Debt

Internal debt comprising mainly current market loans, Treasury Bills, special securities issued to RBI and special floating and other loans, stood at Rs.70,428 crores at end-March 1986 showing a larger increase of Rs.11,891 crores (+20.3 per cent) against a rise of Rs.8,274 crores (+16.5 per cent) in the previous year. It is expected to reach a level of Rs.80,642 crores by the end of March 1987 registering an

19. The figures for 1985-86 and 1984-85 relate to revised estimates and accounts data, respectively, unless stated otherwise.
20. Including the amount of Rs.300 crores due from Pakistan on allotment of pre-partition debt. The figures at end-March 1987 relate to budget estimates unless stated otherwise.

Table VIII—19: Public Debt and Other Liabilites of Government of India

(Rupees crores)

Items	As at the end of March						
	1981	1982	1983	1984	1985	1986 (Revised Estimates)	1987 (Budget Estimates)
1.	2.	3.	4.	5.	6.	7.	8.
A. Public Debt (1+2)	**42,162**	**47,981**	**60,621**	**65,383**	**75,174**	**88,770**	**1,01,592**
	(33.0)	**(32.5)**	**(36.8)**	**(33.7)**	**(35.3)**	**(37.1)**	
1. Internal Debt (i to vi)	30,864	35,653	46,939	50,263	58,537	70,428	80,642
(i) Current Market Loans	15,549	18,461	22,232	26,270	30,366	35,460	40,760
(ii) Others‡	251	309	429	520	551	597	599
(iii) Special Bearer Bonds	88	964	964	964	964	964	964
(iv) Treasury Bills	12,851	10,273	17,431	15,756	19,452	25,134	29,228
(v) Special floating and other loans +	1,540	1,536	1,673	2,183	2,554	3,086	3,841
(vi) Special Securities issued to RBI	585	4,110	4,210	4,570	4,650	5,187	5,250
2. External Debt	11,298	12,328	13,682	15,120	16,637	18,342	20,949
of which:							
Loans from IMF Trust Fund	538	538	538	538	538	471	339
B. Other Liabilities (a to d)	**17,587**	**20,205**	**24,251**	**29,878**	**38,267**	**49,511**	**61,169**
	(13.7)	**(13.7)**	**(14.7)**	**(15.4)**	**(17.9)**	**(20.7)**	
(a) Small Savings	7,976	9,375	11,098	13,506	17,157	21,957	27,256
(b) Provident Funds (i+ii)	2,645	2,924	3,420	3,747	4,159	4,574	5,005
(i) State Provident Fund	2,456	2,670	3,060	3,260	3,607	3,917	4,243
(ii) Public Provident Fund	189	254	360	487	552	657	762
(c) Other Accounts*	3,332	4,279	5,369	6,621	8,389	10,813	13,207
(d) Reserve Funds and Deposits (i+ii)**	3,634	3,627	4,364	6,004	8,562	12,167	15,701
(i) Bearing Interest	1,832	1,905	2,464	4,273	6,198	9,332	12,804
(ii) Not Bearing Interest	1,802	1,722	1,900	1,731	2,364	2,835	2,897
C. Aggregate Liabilities (A+B)	**59,749**	**68,186**	**84,872**	**95,261**	**1,13,441**	**1,38,281**	**1,62,761**
	(46.7)	**(46.2)**	**(51.5)**	**(49.1)**	**(53.2)**	**(57.8)**	
D. Amount due from Pakistan on account of pre-partition debt	**300**	**300**	**300**	**300**	**300**	**300**	**300**
E. Aggregate Liabilities (C-D) (Net of pre-partition debt)	**59,449**	**67,886**	**84,572**	**94,961**	**1,13,141**	**1,37,981**	**1,62,461**

‡ Comprises balances of expired loans, compensation and other bonds. Annuity certificates are excluded from here and shown under small savings.

\+ These represent mainly non-negotiable non-interest bearing securities issued to International Financial Institutions like the International Monetary Fund, International Bank for Reconstruction and Development, International Development Association, International Fund for Agricultural Development and Asian Development Bank.

* Includes mainly Postal Insurance and Life Annuity Fund, Hindu Family Annuity Fund, borrowings against Compulsory Deposits and Income-tax Annuity Deposits, etc.

** Includes depreciation and Reserves Funds of Railways and Department of Posts and Department of Telecommunications, deposits of Local Funds, departmental and judicial deposits, civil deposits, etc.

Note: Figures in brackets represent percentages to the CSO estimates of Gross Domestic Product at current market prices. However, for 1986 such percentages have been worked out on the basis of the Reserve Bank of India estimates of Gross Domestic Product at current market prices.

Source: Finance Accounts of the Union Government for end-March 1981 to 1985 and Explanatory Memorandum on the Budget of the Central Government for end-March1986 and 1987.

increase of Rs. 10,214 crores (+ 14.5 per cent). All constitutents of internal debt, except Special Bearer Bonds, showed increases during the period under review. The sale of these bonds was discontinued from January 9, 1982. As in the previous years the rise in the outstanding amount of internal debt was also mainly on account of current market loans and Treasury Bills. The outstanding internal debt formed 51.6 per cent and 50.9 per cent of the aggregate liabilities of the Central Government at end-March 1985 and 1986, respectively. It is budgeted to form 49.5 per cent of the aggregate liabilities of the Central Government at end-March 1987. As a proportion to GDP at Current Market Prices it formed 27.5 per cent and 29.4 per cent at end-March 1985 and 1986, respectively.

Market Borrowings: 1985-86 [21]

During the fiscal year 1985-86, the Central Government entered the market eight times — twice placing an amount of Rs.500 crores each initially in favour of the Reserve Bank of India — and borrowed a gross amount of Rs.5,764 crores. After providing for a repayment of Rs.663 crores on loans maturing during the year (including the 3 per cent non-terminable loans 1896-97 which the Government decided to repay), the net receipts from market borrowings amounted to Rs.5,101 crores recording a substantial increase of Rs.1,001 crores or 24.4 per cent in comparison with those of the preceding year (Table VIII-20). As in the last two years, during 1985-86 also the net market borrowings of the Central Government were in conformity with the budget estimates.

For the first tranche of borrowings the Central Government entered the market on May 21, 1985 with three loans, *viz.*, 9.50 per cent loan 1995, 10.50 per cent loan 2005 and 11.50 per cent loan 2015 on a cash basis and raised a net amount of Rs.992 crores. The second and third tranche of market borrowing amounting to Rs.500 crores each were privately placed in favour of the Reserve Bank of India on May 22, 1985 and June 13, 1985, respectively. These **special issues were initially taken up by the Reserve Bank of India for subsequent sales to investors.**

In the fourth tranche of July 22, 1985 the Government issued three loans, *viz.*, 9.25 per cent loan 1992, 10.80 per cent loan 2008 and 11.50 per cent loan 2015 (second issue) on a cash-cum-conversion basis and raised and aggregate amount of Rs.1,101 crores, of which Rs.891 crores was on a cash basis and the balance Rs.210 crores was by way of conversion. Net receipts after repayment of unconverted maturing loans were Rs.447 crores. On October 24, 1985 the Government for the fifth time issued three loans, *viz.*, 9.00 per cent loan 1990, 10.80 per cent loan 2008 (second issue) and 11.50 per cent loan 2015 (third issue) on a cash basis and raised a net amount of Rs.991 crores.

In the sixth tranche of borrowings on December 23, 1985 the Government issued two loans, *viz.*, 9.25 per cent loan 1992 (second issue) and 10.50 per cent loan 2005 (second issue), on a cash basis and raised a net amount of Rs.661 crores. In the seventh market floatation of February 17, 1986 the Government issued three loans, *viz.*, 9.50 per cent loan 1995 (second issue), 10.80 per cent loan 2008 (third issue) and 11.50 per cent loan 2015 (fourth issue) on a cash basis and raised a net amount of Rs.771 crores. On March 24, 1986 the Government closed the market borrowing programme for 1985-86 with the issue of 11.50 per cent loan 2015 (fifth issue), for the gross amount of Rs.248 crores. After taking into account the **repayment of Rs.8.93 crores of 3 per cent (non-terminable) loan 1896-97 which the Government decided to repay on or after March 15, 1986, the net market borrowings for this tranche were placed at Rs.239 crores.**

The monthly average of gross redemption yield on Central Government securities was higher at 9.18 per cent during 1985-86 as against 8.21 per cent during 1984-85 (vide Statement 70 in Volume II of the Report).

21. Subscription figures for 1985-86 and 1986-87 are actuals and compiled from Reserve Bank of India records.

Table VIII—20: Market Borrowings of Government of India during 1985-86

(Rupees crores)

Date	Loans Floated	Issue Price (Rupees per cent)	Amount of issue	Subscription Accepted			Repayment in cash for unconverted maturing securities	Net Market Borrowings [(Col.7–Col.6+8)]
				Cash	Conversion	Gross Market Borrowings (Col.5+6)		
1	2	3	4	5	6	7	8	9
21-5-1985	9.50 per cent Loan, 1995	100.00		65.31	—	65.31		
	10.50 per cent Loan, 2005	100.00	900	60.31	—	60.31		
	11.50 per cent Loan, 2015	100.00		866.48	—	866.48		
				992.10	—	992.10	—	992.10
22-5-1985£	9.50 per cent Loan, 1995	100.00		50.00	—	50.00		
	10.50 per cent Loan, 2005	100.00	500	50.00	—	50.00		
	11.50 per cent Loan, 2015	100.00		400.0	—	400.00		
				500.00	—	500.00	—	500.00
13-6-1985£	11.50 per cent Loan, 2015	100.00	500	500.00	—	500.00		
				500.00		500.000	—	500.00
22-7-1985	9-25 per cent Loan, 1992	100.00		87.90	51.23	139.13		
	10.80 per cent Loan, 2008	100.00	1000	31.33	50.29	81.62		
	11.50 per cent Loan, 2015 (Second Issue)	100.00		772.00	108.48	880.48		
				891.23	210.00	1,101.23	444.10	447.13
24-10-1985	9.00 per cent Loan, 1990	100.00)		132.37	—	132.37		
	10.80 per cent Loan, 2008 (Second Issue)	100.00)	900	162.47	—	162.47		
	11.50 per cent Loan, 2015 (Third Issue)	100.00)		696.04	—	696.04		
				990.88	—	990.88	—	990.88
23-12-1985	9.25 per cent Loan, 1992 (Second Issue)	100.00		301.34	—	301.34		
	10.50 per cent Loan, 2005 (Second Issue)	100.00	600	359.90	—	359.90		
				661.24	—	661.24	—	661.24
17-2-1986	9.50 per cent Loan, 1995 (Second Issue)	100.00		70.46	—	70.46		
	10.80 per cent Loan, 2008 (Third Issue)	100.00	700	117.72	—	117.72		
	11.50 per cent Loan, 2015 (Fourth Issue)	100.00		582.83	—	582.83		
				771.01	—	771.01	—	771.01
24-3-1986	11.50 per cent Loan, 2015 (Fifth Issue)	100.00	225	247.67	—	247-67	8.93*	238.74
	Total during 1985-86		**5.325**	**5,554.13**	**210.00**	**5,764.13**	**453.03**	**5,101.10**

£ Special issue by the Central Government, initially taken up by the Reserve Bank of India.

* Indicates the total outstanding amount of 3 per cent loan 1896-97 decided to be repaid on or after March 15, 1986.

Source: Reserve Bank of India Records.

1986-87

For the financial year 1986-87, the Central Government has assumed gross borrowings of Rs.6,350 crores. After taking into account the repayment of loans due for discharge (including 3 per cent conversion loan 1946), the net market borrowings are placed at Rs.5,300 crores registering a smaller rise of Rs.199 crores (+3.9 per cent) over the previous year. The Central Government initiated the market borrowings programme for the year on May 12, 1986 with the issue of three loans, *viz.*, 10.0 per cent loan 1991, 10.50 per cent loan 1996 and 11.50 per cent loan 2006, on a cash-cum-conversion basis and raised an aggregate amount of Rs.1,320 crores of which Rs.1,268 crores was on a cash basis and the balance of Rs.52 crores was on the basis of conversion. On July 14, 1986 the Government entered the market for the second time with two loans, *viz.*, 10.20 per cent loan 1993 and 11.50 per cent loan 2006 (second issue), on a cash-cum-conversion basis and raised an aggregate amount of Rs.1,320 crores of which Rs.1,063 crores was on a cash basis and the balance Rs.257 crores was on the basis of conversion. With this floatation, the total gross borrowings of the Central Government amounted to Rs.2,640 crores or 41.6 per cent of the gross amount budgeted for 1986-87.

Coupon Rates on Central Government Loans

The conscious policy stance to raise coupon rates on Central Government loans observed in recent years continued in 1985-86 also. During 1984-85, long-dated securities with a maturity of 30 years were introduced for the first time with a coupon rate of 10.50 per cent. In 1985-86 similar securities were floated but at a higher coupon rate of 11.50 per cent. An increase of 1.00 to 1.25 percentage points was provided for the rates on other maturities comparable with those of 1984-85. During 1985-86, of the total amount of loans floated, the proportion accounted for by those carrying the highest coupon rates, *viz.*, 11.50 per cent, was 72.4 per cent, as compared with 38.2 per cent in respect of the loan carrying the highest rate of 10.50 per cent in 1984-85.

Apart from market borrowings discussed above, the Centre also mobilises resources through other sources such as bonds,certificates and deposit schemes. Details of resources mobilisation through these measures are discussed in the following paragraphs.

National Rural Development Bonds (Second Issue)

National Rural Development Bonds (Second Issue) were put on tap from July 7, 1983 with a maturity period of 3 years carrying an interest rate of 7.5 per cent per annum. As in the case of the 7-year National Rural Development Bonds introduced on July 9, 1979 these Bonds were intended to provide an investment facility to persons desirous of availing exemption from capital gains tax on transfer/sale of assets. The Budget for 1986-87 has taken credit for an amount of Rs.20 crores from the sale of 3-year Bonds. As on June 30, 1986 the total amount outstanding since inception from the sale of 3-year Bonds stood at Rs.89 crores. It was Rs. 183 crores in the case of 7-year Bonds.

Social Security Certificates

Social Security Certificates were introduced on June 1, 1982 to mobilise private savings for public use, especially from small savers. The rate of interest works out to 11.3 per cent per annum (compounded half yearly). Details of the scheme were given in the last year's report. The total subscription to Social Security Certificates since inception amounted to Rs.18.0 crores as on March 31, 1986.

Capital Investment Bonds

Capital Investment Bonds were put on tap from June 28, 1982. These bonds have a maturity period of ten years and carry interest at the rate of 7.0 per cent per annum. The Budget for 1986-87 has taken credit for Rs.60 crores from the sale of these bonds. The outstanding receipts from the sale of these bonds since inception were Rs.162.4 crores as on June 30, 1986.

National Deposit Scheme

The National Deposit Scheme having broadly the same features of long-term time deposits with banks was introduced on July 30, 1984 for mobilising additional resources for public investment. The deposits under the scheme are for a period of four years and carry interest at the rate of 10.50 per cent per annum. Details of the scheme were provided in the last year's report. The Budget for 1986-87 has taken credit for an amount of Rs.200 crores from these deposits. The subscriptions to these deposits since inception were placed at Rs.58.7 crores as on April 18, 1986 against the target of Rs.500 crores over a period of time. The LTFP indicated the outline of National Deposit Scheme (New Series) for public discussion. The proposal has since been referred to the Committee on Expenditure Tax for further examination.

Market Borrowings of Local Authorities and Institutions sponsored by Central and State Governments

Net market borrowings of local authorities and institutions sponsored by Central and State Governments at Rs.2,208.8 crores showed a large increase of Rs.310.4 crores (+16.4 per cent) during 1985-86 over 1984-85 (Table VIII—21). As against this, there was a rise of Rs.160.1 crores (+9.2 per cent) in 1984-85 over the previous year. Institutions sponsored by the Central Government borrowed a net amount of Rs.1,466.6 crores registering an increase of Rs.249.7 crores (+20.5 per cent). The net borrowings of institutions sponsored by State Governments at Rs.711.9 crores were higher by Rs.56.3 crores (+8.6 per cent) over those of the preceding year. The borrowings of local authorities during 1985-86 showed an increase of Rs.4.3 crores (+16.6 per cent) over 1984-85. As against this, they had registered a decline of Rs.3.8 crores (−12.9 per cent) in 1984-85. During 1985-86, in the case of institutions sponsored by the Central and State Governments, those engaged in providing long-term finance to industry and export accounted for 62.8 per cent of the net aggregate borrowings of all institutions and local authorities taken together, against 61.5 per cent in the previous year.

Table VIII-21: Net Market Borrowings of Local Authorities and Institutions Sponsored by Central and State Governments

(Rupees crores)

Institutions	1984-85	1985-86
1.	2.	3.
Local Authorities	**25.97**	**30.29**
Municipal Coporations	25.97	30.29
Institutions Sponsored by the Central Government	**1,216.86**	**1,466.58**
Industrial Development Bank of India	643.96	700.00
Industrial Credit and Investment Corporation of India	175.00	196.50
Industrial Finance Corporation of India	175.00	280.50
EXIM BANK	25.00	39.50
Industrial Reconstruction Bank of India	5.00	41.75
National Bank for Agriculture and Rural Development	33.00	36.23
Rural Electrification Corporation	36.30	36.30
Housing and Urban Development Corporation	40.00	43.95
National Co-operative Development Corporation	45.00	49.45
Damodar Valley Corporation	33.60	36.90
Delhi Co-operative Housing Finance Society Ltd.	5.00	5.50
Institutions Sponsored by State Governments	**655.59**	**711.95**
State Electricity Boards	474.52	512.13
State Financial Corporations	130.00	155.96
Industrial Investment Corporation and Industrial Development Corporation	19.26	14.41
Land Development Banks	(−)6.03	(−)29.03
Housing Boards	9.07	14.19
Other Institutions	28.77	44.29
GRAND TOTAL	**1,898.42**	**2,208.82**

Source: Reserve Bank of India Records.

Maturity Pattern of Rupee Debt[22]

The maturity pattern of Government of India rupee loans witnessed some changes at end-March 1986. The proportion of long-dated securities (including loans maturing after 10 years

22. Refer to Statement 96 in volume II of the Report. Figures here relate to actuals of 1985-86.

and undated) in the total recorded an increase from 73.9 per cent at end-March 1985 to 74.3 per cent at end-March 1986, whereas the proportion of short-dated securities (loans maturing under 5 years) in the total declined from 11.2 per cent to 10.2 per cent. The share of medium-dated securities (loans maturing between 5 and 10 years) in the total also showed a rise from 14.9 per cent to 15.5 per cent in the same period.

Treasury Bills[23]

The outstanding Treasury Bills of the Government of India at Rs.26,014 crores at end-March 1986 witnessed a substantial rise of Rs.6,562 crores (+33.7 per cent) during 1985-86 against a rise of Rs.3,696 crores (+23.5 per cent) in the previous year. There had been a decline of Rs.1,675 crores (−9.6 per cent) between end-March 1983 and end-March 1984. The shares of Reserve Bank of India and the State Governments were substantially larger by Rs.5,264 crores and Rs.1,377 crores, respectively, at the end of March 1986 as compared with the previous year. The shares of commercial banks declined by Rs.252 crores. In the case of others, the increase was Rs.174 crores.

Special Floating and other loans

Special floating loans and other loans representing mainly Government of India's contribution towards share capital of international financial institutions, such as IMF and IBRD, stood at Rs.3,806 crores at end-March 1986 showing a rise of Rs.532 crores (+20.8 per cent) over the previous year As against this, there was an increase of Rs.371 crores (+17.0 per cent) at end-March 1985 over end-March 1984. The Budget for 1986-87 has envisaged an amount of Rs.3,841 crores at end-March 1987 registering a rise of Rs.755 crores (+24.5 per cent) over end-March 1986.

Special Securities issued to the Reserve Bank

Special Securities issued to the Reserve Bank of India against Compulsory Deposits and those in lieu of *ad hoc* Treasury Bills amounted to Rs.5,187 crores at end-March 1986 and were higher by Rs.537 crores (+11.5 per cent) as compared with a marginal rise of Rs.80 crores (+1.8 per cent) in the previous year. The Budget for 1986-87 under this head has made a provision for Rs.5,250 crores — a rise of Rs.63 crores (+1.2 per cent).

Other liabilities

The non-marketable debt liabilities of the Government of India stood at Rs.49,511 crores at end-March 1986 registering a rise of Rs.11,244 crores (+29.4 per cent) over end-March 1985 compared with a growth of Rs.8,389 crores (+28.1 per cent) in the previous year. Under this head, the Budget for 1986-87 has envisaged an amount of Rs.61,169 crores at end-March 1987 recording an increase of Rs.11,658 crores (+23.5 per cent) over end-March 1986. The proportion of non-marketable debt liabilities to the aggregate liabilities increased to 35.8 per cent at end-March 1986 from 33.7 per cent at end-March 1985. They are budgeted to increase further to 37.6 per at end-March 1987. As a proportion to GDP at Current Market Prices they formed 17.9 per cent and 20.7 per cent at the end of March 1985 and 1986, respectively.

Small Savings[24]

Small Savings, outstanding at end-March 1986, amounted to Rs.22,313 crores against Rs.18,069 crores at end-March 1985 registering an increase of Rs.4,244 crores (+23.5 per cent). Thus, the net additions to the outstandings during the period under review were higher at Rs.4,244 crores as against Rs.3,620 crores in the previous year. A major portion of the increase (Rs.3,038 crores or 71.6 per cent) in the outstanding was on account of substantial invest-

23 Refer to Statement 86 in volume II of the Report. Figures here relate to actuals of 1985-86.

24. Refer to Statement 98 in Volume II of the Report. Figures here relate to actuals of 1985-86.

ment in 6-Year National Savings Certificates (VI and VII issues). There were increases of Rs.2,788 crores and Rs.250 crores in the case of 6-Year National Savings Certificates VI issue and VII issue, respectively. The spectacular rise in the outstanding amount of 6-Year National Savings Certificates (VI issue) was mainly due to attractive tax concessions. Details of these concessions were given in the Report for 1984-85. A declining trend in the outstandings of the 7-Year National Savings Certificates (II, III, IV and V issues) was noticed during the period under review. The outstanding amounts in the Post Office Savings Bank Deposits, Cumulative Time Deposits and Post Office Recurring Deposits, taken together showed an increase of Rs.357 crores in 1985-86 against a rise of Rs.410 crores in 1984-85.

Promotional Measures

The various tax concessions and the hike in the interest rates on small savings in recent years have substantially boosted the net collections under small savings schemes. In order to make the schemes popular in the remote areas, the Government has utilised mass media like newspapers, radio and televisions. Folders, leaflets and documentary films were also used by the Government to popularise the schemes. During the year under review, certain amendments were made to liberalise and rationalise the schemes on the basis of the recommendations of the Department of Administrative Reforms. Some of these amendments are indicated below. (1) The facility of nomination available for all small savings schemes has been liberalised. If a depositor dies without making any nomination, the limit for settlement of claims without production of legal proof of succession has been raised to Rs.20,000 from the present level of Rs.5,000. (2) In order to expedite the premature closure of Cumulative Time Deposits Accounts with balance up to Rs.10,000 now permitted in certain circumstances, the procedure of field enquiries by the Post Office, before allowing such premature closure, has been dispensed with. (3) Instructions have been issued to the Chairman and Managing Directors of public sector banks to impress upon the banks' offices branches to comply with the instructions of the Reserve Bank of India regarding the grant of loans by banks to the depositors in National Savings Certificates VI/VII issue against these securities. (4) Premature withdrawal from Post Office Time Deposits Account is permitted after six months of opening the account as against the present limit of one year from April 1986. (5) The sale of National Savings Certificates VI issue with a denomination of Rs.10 has been discontinued from April 1, 1986. National Savings Certificates VI/VII issue purchased from April 1, 1986 can be prematurely encashed in certain cases. The opening of a new Recurring Deposit Account with a denomination of Rs.5 has been discontinued from April 1, 1986.

B. State Governments [25]

The outstanding debt liabilities of the State Governments at Rs.51,145 crores at end-March 1986 recorded an increase of Rs.7,199 crores (+16.4 per cent) as against a rise of Rs.6,194 crores (+16.4 per cent) in the previous year. The total debt of the States is budgeted to reach Rs.58,163 crores showing a rise of Rs.7,018 crores (+13.7 per cent) at end-March 1987.

Loans and Advances from the Centre

Loans and advances from the Centre comprising those for Plan Schemes and those for non-Plan Schemes including loans against share of small savings and Ways and Means Advances from the Centre constitute a major portion of the States' debt. The outstanding loans and advances from the Centre stood at Rs.36,250 crores, at end-March 1986, recording a rise of Rs.5,689 crores (+18.6 per cent) during 1985-86 against an increase of Rs.3,580 crores (+13.3 per cent) during 1984-85. They are budgeted to reach Rs.40,842 crores registering a rise of Rs.4,592 crores (+12.7 per cent) at the end of March 1987. The share of loans and advances

25. Refer to Statement 92 in Volume II of the Report for the debt position of States and Statement 95 for the State-wise break-up.

from the Centre in the States' total debt which was 69.5 per cent at end-March 1985 increased to 70.9 per cent at end-March 1986. The share is expected to decline marginally to 70.3 per cent at end-March 1987.

Market Loans and Bonds

The amount of market loans and bonds constituting loans floated in the market and bonds issued by the States such as Zamindari/Jagirdari abolition bonds stood at Rs.5,974 crores at end-March 1986 witnessing a comparatively larger increase of Rs.955 crores (+19.0 per cent) compared with a rise of Rs.686 crores (+15.8 per cent) at end-March 1985. They are anticipated to reach Rs.7,099 crores — an increase of Rs.1,125 crores (+18.8 per cent) at end-March 1987.

Loans from Banks and Other Institutions

The outstanding loans from Banks and Other Institutions include *inter alia* loans and cash credit from the State Bank of India and other commercial banks and loans from the National Rural Credit (Long-Term Operations) Fund of the NABARD, National Co-operative Development Corporation and Life Insurance Corporation of India. The outstanding loans from these institutions at Rs.1,648 crores recorded a comparatively smaller increase of Rs.194 crores (+13.3 per cent) at end-March 1986 as against an increase of Rs.242 crores (+20.0 per cent) at end-March 1985. These loans are expected to reach Rs.1,825 crores showing an increase of Rs.177 crores (+10.7 per cent) at end-March 1987.

Provident Funds and Other Funds

Provident Funds and Other Funds include mainly State Provident Funds, Insurance and Pension Funds, Trusts and Endowments. The amount outstanding against Provident Funds and Other Funds at Rs.6,374 crores recorded a rise of Rs.989 crores (+18.4 per cent) at end-March 1986 as against a rise of Rs.932 crores (+20.9 per cent) in the previous year. These are budgeted to reach Rs.7,442 crores at end-March 1987 showing a rise of Rs.1,068 crores (+16.8 per cent) over the preceding year.

Market Borrowings: 1985-86

Twenty-one State Governments (excluding Sikkim) approached the market on September 2, 1985 with a notified amount of Rs.1,284 crores. All the loans were issued at par with a maturity period of 13 years carrying an interest rate of 9.75 per cent per annum. The total subscriptions retained for these loans amounted to Rs.1,414 crores of which cash subscription amounted to Rs.1,189 crores and the balance Rs.225 crores was by way of conversion. The net amount raised by the State Governments aggregated Rs.973 crores after taking into account the repayment of maturing loans amounting to Rs.441 crores. The monthly gross redemption yield was higher at 6.36 per cent during 1985-86 as compared with 6.32 per cent during 1984-85. (*vide* Statement 70 in Volume II of the Report).

1986-87

Twenty one State Governments entered the market on September 1, 1986 with a notified amount of Rs.1,312.5 crores. All these loans were issued at par with a maturity period of 15 years and carry an interest rate of 11.0 per cent per annum. It was for the first time the State Governments issued loans with a coupon rate of 11.0 per cent. The Total subscriptions to State loans amounted to Rs.1,443.8 crores of which cash subscriptions were Rs.1,403.7 crores and the balance Rs.40.1 crores by way of conversion. After taking into account the repayment of maturing loans amounting to Rs.283.3 crores the net amount raised by the State Governments aggregared to Rs.1,160.5 crores.

Overdrafts to States

The persistence of overdrafts of State Governments has been commented upon in the previous reports. With a view to bringing about financial discipline the Centre advised the

States on February 4, 1985 to restrict their unauthorised overdrafts in fiscal 1984-85 to the level of Rs.1,808.83 crores reached on January 28, 1985 by 17 States. The State-wise limits on overdrafts were also fixed at the levels outstanding as on that date. The States were further advised that in case the overdrafts exceeded the level already reached on January 28, 1985 and continued for more than seven working days, the Reserve Bank would stop payments in respect of the concerned State. In fact the Reserve Bank stopped payments of two State Governments in February and April 1985. The level of overdrafts delcined to Rs.947.66 crores on March 30, 1985 in respect of 11 States (March 31, 1985 was a Sunday). It had been Rs.257.57 crores on account of 8 States on March 31, 1984. The outstanding overdrafts which stood at Rs.351.25 crores in respect of 7 States as on June 27, 1985 were cleared with Central assistance. However, the overdrafts reappeared in July 1985 and reached a maximum (in 1985-86) of Rs.935.74 crores on July 24, 1985 in respect of 9 States. They came down to Rs.311.25 crores in respect of 5 States at the end of September 1985. Under the procedure evolved for the regulation of overdrafts, the Centre extended on October 1, 1985 medium-term loans of Rs.1,628.01 crores to 17 States equal to 90 per cent of their overdrafts outstanding as on January 28, 1985. The Centre also advised the State Governments that thereafter they should not have any overdrafts with the Reserve Bank and that in case any overdrafts appeared in any State Government account and remained beyond 7 continuous working days the Reserve Bank would stop payments on that account. The States have abided by the regulation of the Scheme.

Chapter IX

Capital Market

This chapter reviews the trends and developments in the capital market and operations of term-lending institutions.

The capital market was quite buoyant during greater part of 1985-86 but suffered a setback after presentation of the Union Budget for 1986-87 on February 28, 1986.

Aggregate value of consents/acknowledgements for capital issues (other than issues of bonus shares and miscellaneous issues such as loans, etc.) granted by the Controller of Capital Issues (CCI) to non-Government public and private limited companies during 1985-86 (April-March) at Rs.3,055.3 crores was higher by 79.8 per cent compared with that in 1984-85. Fresh capital issues by non-Government public limited companies at Rs.1,500.5 crores in 1985-86 were higher by 47.7 per cent compared with the previous year.

Capital raised (paid-up) at Rs.934.5 crores during 1985-86 by non-Government public and private limited companies against consents/ acknowledgements of proposals granted by CCI for new issues (excluding bonus shares and miscellaneous issues such as loans, etc.) showed a rise of 8.9 per cent over 1984-85.

The buoyancy in equity prices witnessed after presentation of the Union Budget for 1985-86 in March 1985 was temporarily arrested in early July 1985 following disinvestment of select scrips by financial institutions. An upward trend in equities, however, quickly re-emerged in the second week of July and continued till mid-August. Thereafter equity prices ruled easy upto the first week of October and then fluctuated within a narrow range till the third week of November. Equities again rallied and reached a new peak in mid-February 1986 before presentation of the Union Budget for 1986-87. The post-budget period was characterised by a subdued tone in equities.

Assistance sanctioned by all-India and state-level term-lending institutions during 1985-86 (April-March) at Rs.6,414.8 crores was higher by 15.8 per cent compared with that sanctioned in 1984-85. Disbursement of assistance by these institutions at Rs.4,802.5 crores during the year was higher by 39.1 per cent compared with that in the previous year.

Consents for Capital Issues

During 1985-86, aggregate value of consents/ acknowledgements granted by CCI to non-Government public and private limited companies for *fresh* issues of capital (i.e. new issues excluding bonus shares and miscellaneous issues) increased from Rs.1,699.1 crores in 1984-85 to Rs.3,055.3 crores in 1985-86, showing a rise of 79.8 per cent which was about the same as that registered in the previous year (Table IX-1). This is a significant rise considering, *inter alia*, that following the raising of the

cut-off point for exemption of capital issues from Rs.50 lakhs to Rs.1 crore under the Capital Issues (Exemption) Order, 1969 from February 23, 1985 capital issues in this category (other than certain specified types of issues) did not require consent or acknowledgement of CCI.

Table IX-1: Consents/Acknowledgements of Proposals granted by the Controller of Capital Issues to non-Government Public and Private Limited Companies.

(Rs. crores)

Year April-March	Shares and Debentures				Bonus Shares	Miscellaneous issues (Loans,** etc.)	Grand Total (5+6+7)	Approvals for Shares (Equity and Preference)	
	Equity*	Preference	Debentures	Total (2+3+4)				Initial Issues	Further Issues
1	2	3	4	5	6	7	8	9	10
1981-82	202.1	3.3	416.9	622.3	156.0	155.2	933.5	124.2	81.2
	(32.5)	(0.5)	(67.0)	(100.0)					
1982-83	243.7	11.1	531.3	786.1	107.3	148.9	1,042.3	160.4	94.4
	(31.0)	(1.4)	(67.6)	(100.0)					
1983-84	313.4	6.1	609.3	928.8	94.7	62.2	1,085.7	192.1	127.4
	(33.7)	(0.7)	(65.6)	(100.0)					
1984-85	773.0	6.5	919.6	1,699.1	88.3	222.4	2,009.8	557.3	222.2
	(45.5)	(0.4)	(54.1)	(100.0)					
1985-86	1,051.1	15.2	1,989.0	3,055.3	178.9	221.0	3,455.2	645.5	420.8
(Provisional)	(34.4)	(0.5)	(65.1)	(100.0)					

* Excluding bonus shares.

** Other than loans granted by public financial institutions, banks, etc., which are exempted from capital issues control.

Note: Figures in brackets in column 2,3,4 indicate percentages to totals in column 5.

Source: The Controller of Capital Issues, Government of India.

Security-wise, approvals (i.e. consents/acknowledgements) for debenture issues accounted for nearly two-third and equity issues for a little over one-third of total approvals for *fresh* capital issues. Approvals for debenture issues which rose by 50.9 per cent in 1984-85 sharply increased further by 116.3 per cent reflecting the preference of companies for this instrument owing to its rising popularity among investors. Approvals for equity shares (other than bonus shares) increased from Rs.773.0 crores to 1,051.1 crores in 1985-86.

Approvals for 'initial' issues of shares (equity and preference) which had risen sharply from Rs.192.1 crores in 1983-84 to Rs.557.3 crores in 1984-85 rose further to Rs.645.5 crores in 1985-86. Approvals for 'further' issues of shares nearly doubled to Rs.420.8 crores from Rs.222.2 crores in the previous year.

Capital Issues*

According to data compiled by the Reserve Bank, new capital issues (excluding bonus shares and miscellaneous issues) by non-Government public limited companies during 1985-86 at Rs.1,500.5 crores (through 734 is-

* The analysis is based on the data compiled by the Reserve Bank on the basis of prospectuses/circulars/advertisements issued by companies, replies given by companies to the Reserve Bank's questionnaires, and information received/collected from Stock Exchange Divisions of Ministry of Finance, Stock Exchanges, press reports/handouts, etc.

sues) were higher by 47.7 per cent compared with issues of Rs.1,015.9 crores (through 471 issues) in 1984-85 (Table IX-2). The bulk of this rise was owing to a spate of equity issues which reflected the private corporate sector's quick response in an environment of favourable investment climate and optimism of investors following the liberalisation of industrial and fiscal policies. An overwhelming proportion of equity issues during the year was accounted for by new companies. A size-wise analysis of equity issues revealed a sharp rise in the range of Rs.50 lakhs to Rs.1.0 crore, which is indicative of the preference of companies for this category following raising of the cut-off point for exemption under the Capital Issue (Exemption) Order, 1969 from Rs.50 lakhs to Rs.1.0 crore in February 1985. Capital issues through prospectus nearly doubled to Rs.777.0 crores while those made on rights basis rose by 31.5 per cent to Rs.723.5 crores (including debenture issues of Rs.666.4 crores) (Table IX-3).

Table IX-2: Fresh Capital Issues by Non-Government Public Limited Companies*

(Amount in Rs. crores)

Year (April-March)	Equity Shares		Preference Shares		Debentures		Total	
	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount	No. of Issues	Amount
	1	2	3	4	5	6	7	8
1982-83	570	258.65	8	2.34	66	445.00	644	705.99
1983-84	734	381.60	7	1.71	53	454.18	794	837.49
		(47.5)				(2.1)		(18.6)
1984-85**	403	358.23	4	0.11	64	657.54	471	1,015.88
		(−6.1)				(44.7)		(21.3)
1985-86**	650	743.95	4	1.86	80	754.70†	734	1,500.51
		(107.7)				(14.8)		(47.7)
April-June								
1985**	87	85.57	—	—	10	357.99†	97	443.56
1986**	113	159.62	1	0.50	28	226.99	142	387.11
		(86.5)				(−36.5)		(−12.7)

* Other than term-lending institutions.

** Provisional.

† Includes an issue of Rs.270.0 crores by Reliance Industries Ltd.

Note: Figures in brackets indicate percentage variation over the previous year/period.

Source: Prospectuses/circulars /advertisements issued by companies; replies given by companies to the Reserve Bank's questionnaires; and information received/collected from Stock Exchange Divisions of Ministry of Finance; Stock Exchanges, press reports/handouts, etc.

Security-wise, equity issues during 1985-86 rose sharply to Rs.743.9 crores showing a rise of 107.7 per cent over the previous year. Issues of preference shares, which are negligible in relation to total capital issues, increased to Rs.1.9 crores from Rs.0.1 crore in 1984-85. Debenture issues at Rs.754.7 crores were higher by 14.8 per cent compared with those in the previous year, these comprised of convertible debenture issues of Rs.81.8 crores (10.8 per cent) and non-convertible debenture issues of Rs.672.9 crores (89.2 per cent).

Out of the 734 new capital issues during 1985-86, 547 issues were made by new public limited companies — i.e. companies which had not gone in for commercial production/business at the time of making the public issue — and 187 were made by existing companies.

Leasing companies made capital issues of Rs.86.33 crores during 1985-86 as against Rs.35.75 crores in 1984-85.

Table IX-3: Fresh Capital Issues through Prospectus and Rights by Non-Government Public Limited Companies*

(Amount in Rs. crores)

Year	Issues through Prospectus					Issues through Rights					Grand Total		Distribution between			
	Number of Issues	Equity Shares	Preference Shares	Debentures	Total (3 + 4 + 5)	Number of Issues	Equity Shares	Preference Shares	Debentures	Total (8 + 9 + 10)	Number of Issues (2 + 7)	Amount (6 + 11)	Issues of New Cos.	Amount	Issues of Existing Cos.	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1982-83	559	245.48	1.76	150.20	397.44	85	13.17	0.58	294.80	308.55	644	705.99	498	215.09	146	490.90
1983-84	705	337.48	1.21	21.47	360.16	89	44.12	0.50	386.71	431.33	794	837.49 (46.00)	651	295.36	143	542.13
1984-85**	404	349.31	0.11	42.51	391.93	67	8.92	—	541.20	550.12	471	1,015.88 (73.83)	340	309.15	131	706.73
1985-86**	614	687.14	1.60	88.26	777.00	120	56.81	0.26	666.44†	723.51	734	1,500.51	547	732.04	187	768.47
April-June																
1985**	80	76.84	—	8.65	85.49	17	8.73	—	349.34†	358.07	97	443.56	70	64.20	27	379.36
1986**	118	141.68	—	28.56	170.24	24	17.94	0.50	198.43	216.87	142	387.11	90	130.15	52	256.96

* Other than term-lending institutions.

** Provisional.

† Includes an issue of Rs.270.0 crores by Reliance Industries Ltd.

Note: Bracketed figures indicate amount issued on private placement basis.

Source: Prospectuses/ circulars/advertisements issued by companies; replies given by companies to the Reserve Bank's questionnaires and information received/collected from stock exchange Divisions of Ministry of Finance, Stock Exchanges, press reports/handouts, etc.

During 1985-86, three public sector undertakings in the power and telecommunications sector issued bonds of a total face value of Rs.265.0 crores in terms of the guidelines issued by the Ministry of Finance in September 1985.

As regards public response to new issues of non-Government public limited companies, available data relating to 150 issues in 1985-86 revealed that 139 issues were over-subscribed, 8 were fully-subscribed and only 3 were under-subscribed.

During the quarter April-June 1986, there were 142 capital issues by non-Government public limited companies for a total amount of Rs.387.1 crores as against 97 issues for Rs.443.6 crores during corresponding period of 1985. During April-June 1986 issues through prospectus amounted to Rs.170.2 crores while rights issues amounted to Rs.216.9 crores. Security-wise, equity issues during the quarter April-June 1986 were higher at Rs.159.6 crores as compared with Rs.85.6 crores in the corresponding quarter of 1985 and debenture issues at Rs.227.0 crores were lower compared with Rs.358.0 crores in the corresponding quarter of 1985. The debenture issues of Rs.358.0 crores in the first quarter of 1985 included, it may be recalled, the large issue of Rs.270.0 crores by Reliance Industries which opened in June 1985.

Capital Raised

Capital raised (paid-up) (excluding bonus shares and miscellaneous issues) by non-Government companies against consents/ acknowledgements of proposals granted by CCI during 1985-86 aggregated Rs.934.5 crores compared with Rs.858.3 crores in 1984-85 (Table IX-4). Capital raised through equity shares at Rs.227.4 crores was lower than that in the previous year (Rs.242.8 crores).

Table IX-4: Capital Raised (Paid-up) against Consents/Acknowledgements of Proposals by non-Government Public and Private Limited Companies.

(Rs. crores)

Year (April-March)	1984-85 (Revised)	1985-86 (Provisional)
1	2	3
(i) Equity Shares	242.8	227.4
(ii) Preference Shares	1.9	2.9
(iii) Debentures	613.6	704.2
Total (i to iii)	**858.3**	**934.5**
(iv) Bonus	87.1	178.9
v) Miscellaneous issues (Loans* etc.)	51.3	1.3
Grand Total (i to v)	**996.7**	**1,114.7**

* Other than loans granted by public financial institutions, banks, etc. which are exempted from capital issues control.

Source: The Controller of Capital Issues, Government of India.

Capital raised through debentures at Rs.704.2 crores and through preference shares at Rs.2.9 crores was higher than that in the previous year (Rs.613.6 crores and Rs.1.9 crores, respectively). Debentures continued to account for a sizeable share of capital raised; they constituted over three fourth of total capital raised through issue of equity and preference shares and debentures during 1985-86. Capitalisation of reserves (i.e. issue of bonus shares) at Rs.178.9 crores more than doubled during the year from Rs.87.1 crores in the previous year. Capital raised in 1985-86 through miscellaneous issues such as loans, etc., was Rs.1.3 crores only compared with Rs.51.3 crores in 1984-85.

Developments in Policy

As proposed in the Union Budget for 1985-86 the Government of India announced, in August 1985, two schemes to encourage participation of employees in the equity of companies. In the first scheme, called Employees Stock Option Scheme (ESOS), the stock issue is linked to the savings of the employees while in the second scheme, companies have to reserve 5 per cent of any further issue for preferential allotment to their employees/workers on an equitable basis. Both these schemes extend to all public limited companies and are voluntary in nature for employees. The Government also announced in August 1985 guidelines for issue of Cumulative Convertible Preference shares (CCP) aimed at diversifying the security markets. CCPs carry 10 per cent dividend and are fully convertible into equity shares between the third and fifth year of their issue. CCPs are deemed equity for purposes of debt-equity ratio.

The Securities Contracts (Regulation) Act was amended to facilitate free transferability of shares. Suitable safeguards have also been provided in the Act against take-over bids.

In September 1985, the Government of India issued guidelines for floating of bonds by public sector undertakings in the telecommunication and power sectors and such other sectors as may be notified by the Government. These bonds can be issued both by existing and new companies, and have to be of face value of Rs.500 or Rs.1,000. The other features of these bonds are: 14 per cent ceiling rate of interest per annum, exemption from wealth tax without any limit, exemption of interest income within the overall ceiling of Rs.7,000 under Section 80L of the Income-tax Act 1961 and transferability by endorsement and delivery.

The Long-Term Fiscal Policy announced on December 19, 1985 contained several features favourable to the capital market. These included: maintaining present rate schedules for taxes on personal income and wealth for a minimum period of five years; abolition of surcharge on income tax and sur-tax on companies from the assessment year April 1, 1987; decision to further simplify and rationalise direct tax structure; strengthening the incentives for saving, inducing greater disclosures of incomes; announcement of a new investment instrument called National Deposit Scheme (New Series) carrying 10 per cent interest per annum and qualifying for certain tax concessions; advancement of the date for revaluation of assets for purposes of computation of capital gains from January 1, 1964 to April 1, 1974; exemption of investments in bonds of IDBI and HUDCO from capital gains under Section 54E of the Income-tax Act; introduction after withdrawal of investment allowance with effect from April 1, 1987, of a new scheme allowing corporate enterprises to deduct a specified fraction, not exceeding 20 per cent, of their profit from taxable income if deposited with IDBI and other institutions that the Government may notify, investment in new plant and machinery or any other approved purpose made directly out of profits being also regarded as "funding" for purposes of such deductions; and the decision to simplify provisions relating to depreciation.

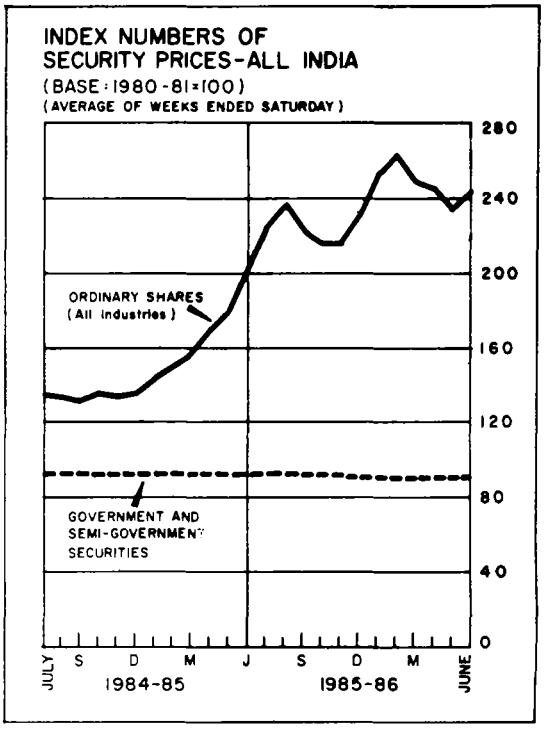
All these favourable features of the Long-Term Fiscal Policy, excepting the abolition of sur-tax and introduction of the National Deposit Scheme (New Series) were translated into proposals in the Union Budget for 1986-87 which contained two additional proposals aimed at further diversifying the capital market. The additional proposals related to: i) provision of a channel for small investors investing in shares quoted on stock exchanges with a view to enabling them to get the benefits of capital appreciation for which a new Mutual Fund in the public sector as a subsidiary of the UTI was proposed to be set up; investments in units of this fund would also qualify for exemption from tax on long-term capital gains under Section 54E of the Income-tax Act; and ii) introduction of another series of public sector bonds with a tax free return, in addition to wealth tax exemption. The High Powered Committee (Patel Committee) on Stock Exchanges, which was appointed in May 1984, submitted its report to the Government. Some of

the recommendations of the Committee such as those relating to cost of public issues, etc. have already been implemented by the Government.

Industrial Security Market

On the major stock exchanges, equity prices remained firm from July 1985 to mid-August, ruled easy upto first week of October and fluctuated within a relatively narrow range thereafter till the third week of November. Thereafter they gained a strong upward momentum and reached a new peak in mid-February 1986. The post-budget period was characterised by subdued tone in equities, excepting for two short spells of recovery. These trends were reflected in the movement of the Reserve Bank's all-India index number of ordinary share prices (Base 1980-81 = 100). The index rose from 221.9 for the week ended June 29, 1985 to 247.0 by the week ended August 10. It declined to 219.0 in the week ended September 7, touched a low of 211.1 in the week ended October 5 and fluctuated within a narrow range till the third week of November. Thereafter, the index registered a sustained rise and reached a new peak of 268.1 in the week ended February 15, 1986. The index slipped from this peak level to 237.9 in the third week of March. In the next three months, it fluctuated between 248.6 and 230.5 and stood at 239.2 in the last week of June. The average index for 1985-86 (July-June) at 236.3 was substantially higher by 57.6 per cent over the average for the preceding year (Table IX-5). On a point-to-point basis, the index at 239.2 for the week ended June 28, 1986 was higher by 7.8 per cent over its level a year ago.

The stock market buoyancy witnessed after presentation of the Union Budget for 1985-86 was arrested in early July following disinvestment of select scrips by financial institutions. However, with the revival of monsoon and following the announcement of certain incentives for export promotion, speculative forces again exerted considerable pressure on equity prices which recorded sharp rises on major stock exchanges. The Bombay Stock Exchange (BSE)



authorities, in their efforts to check unhealthy speculative activity, imposed a 40 per cent margin on all fresh purchases of both specified and non-specified shares effective from July 23. After reacting to this measure, equities again rallied on slashing of daily margins, effective August 7, from the uniform rate of 40 per cent to 30 per cent on specified shares and 20 per cent on non-specified shares. Equity prices touched new heights in the week ended August 10.

Thereafter, following persistent unloading of shares by financial institutions and resultant nervous bull liquidation, distinct downtrend in equities set in. In view of this declining trend, daily margins on purchases were relaxed by major stock exchanges. Encouraged by these relaxations as well by absence of institutional offerings, pivotals attracted some support in the second week of September. Sentiment was also aided by the Government's proposal to bring more industries under the broad-banding scheme. With resumption of offerings by institutions and owing to caution on account of certain political developments in U.P. and the

Table IX–5: Index Numbers of and Yield on Ordinary Shares

Year (July-June)	Index Numbers of Ordinary Shares (1980-81 = 100)				Average Gross Yield (per cent per annum)
	End of the year (Last week ended Saturday)	Highest	Lowest	Annual Average of Weekly Index	
1	2	3	4	5	6
1981-82	103.6	125.0	103.6	115.7*	5.5
1982-83	125.1	125.1	108.4	112.8* (−2.5)	5.7
1983-84	129.6	134.7	122.4	127.7* (+13.2)	5.1
1984-85	221.9	221.9	130.6	149.9 (+17.4)	4.5
1985-86	239.2	268.1	211.1	236.3 (57.6)	3.3**

Note: 1. Data on yield relate to sample of companies covered in the series with base 1970-71.
2. Figures in brackets are percentage variations over the previous year.
* Average of the index of last week ended Saturday of the months as the remaining weekly indices are not compiled for the years 1981 to 1984.
** Average of 9 months (July'85 to March 1986)

then ensuing elections in Punjab, equities suffered setbacks which continued till the first week of October. The declining trend was somewhat arrested thereafter following encouraging corporate news, widespread rains in deficit areas and raising of margins on bears and reduction of margin on bulls by BSE. Equities, however, remained subdued in the first half of November owing mainly to announcement of a bonus issue by a leading cement company in the ratio of 1:5 which was much below market expectations, and the Government's stern action against certain companies for violation of tax laws.

As a result of institutional support in select scrips, good corporate news and optimism about likely outcome of the eagerly awaited long-term fiscal policy, equities again resumed an uptrend in the second half of November which was interrupted in the third week of December owing to raids by the Government authorities on certain business houses to unearth evasion of central excise and customs duties and violation of Foreign Exchange Regulation Act, as also on account of profit-taking. The announcement of the long-term fiscal policy on December 19 also initially depressed sentiment as some of the proposals contained in the policy — particularly the one relating to withdrawal of investment allowance — were not welcomed by the market. Later, however, with reassessment of the long-term fiscal policy, especially its beneficial impact on FERA, tea, leasing and sur-tax paying companies, sentiment improved and equities rallied again towards the end of December and resumed an upward trend. The firm trend continued and gained speculative momentum and equities scaled a new peak in mid-February 1986, deriving strength from further liberalisation towards end of December 1985 in industrial licensing policy extending also to FERA and MRTP companies, announcement of liberal bonus issues by certain companies and good corporate news, hike in fertiliser prices, and expectations of a saving and investment-oriented Union Budget for 1986-87. Even the stiff daily margins imposed by stock exchange authorities in Bombay and Calcutta had only a marginal impact in containing the speculative rise in equity prices.

In the third week of February, equities eased on scattered offerings by financial institutions and bull unloading but again firmed up on the eve of the Union Budget, encouraged by the optimistic picture of the economy depicted in the Government's pre-budget Economic Survey, and absence of any hike in freight rates in the Railway Budget.

In the post-budget session, however, equities reacted sharply as some of the budget proposals fell short of market expectations. The proposals which mainly affected market sentiment adversely were: withdrawal of investment allowance in respect of plant and machinery to be installed after March 31, 1987, withdrawal of tax concessions of intercorporate dividends (later restored) and disallowance of capitalisation of interest (relating to period after the asset is first put to use) with retrospective effect from April 1, 1974. As equities continued to drift downwards on selling pressure, most of the stock exchanges imposed curbs on fresh sales. The downtrend halted towards the end of March and equities registered partial recovery in the first half of April on investment-cum-speculative support following the announcement of certain fiscal concessions — particularly the restoration of the tax concession on intercorporate dividends.

Following the disturbed political situation and raids by income-tax authorities on residences and business premises of some stock brokers in Ahmedabad and Bombay, equities again reacted reflecting the cautious attitude of marketmen. They ruled easy during the major part of May as market sentiment was adversely affected owing to gravity of the Punjab problem, discouraging corporate news and limited support from financial institutions. The Government's decision to further simplify the procedure for grant of industrial licences failed to enliven the market sentiment. Against this background, the stock exchange authorities relaxed curbs on trading. Although these relaxations, coupled with some support from financial institutions, evoked a favourable response from the market, in general marketmen preferred to be cautious awaiting the onset of monsoon and announcement of the new drug policy. The last week of May, however, witnessed sizeable speculative support following the decision of BSE authorities to transfer 14 scrips from the non-specified to the specified list and the Government's announcement permitting increase in capacity in respect of 65 items pertaining to six important industrial groups. In view of the spurt in equity prices, BSE authorities raised margins on bulls in volatile scrips. In early June, equities derived strength on heavy speculative buying following assurances by the Union Industry Minister regarding further simplification of industrial policy. Later, however, equities eased and remained subdued till the end of June owing to offerings by financial institutions, delay in the onset of monsoon, the Government's ban on conversion of non-convertible debentures and non-convertible portion of convertible debentures into equity shares by companies, and lack of support coupled with profit-taking. The announcement of encouraging working results by TISCO and its decision to issue bonus shares and offer right issues failed to enliven the market.

New Stock Exchange

The number of recognised stock exchanges in the country rose to 14 with the functioning from September 18, 1985, of a new stock exchange, viz., Kanara Stock Exchange at Mangalore.

Yield on Industrial Securities

The average gross yield on ordinary shares continued to decline and was 3.3 per cent for 1985-86 as compared to 4.5 per cent for 1984-85 and 5.1 per cent for 1983-84 (Table IX-5).

Open Market Operations

A noteworthy feature of the open market operations of the Reserve Bank of India in recent years has been that its sales have been substantially higher than its purchases resulting in net absorption of securities by the market.

The quantum of purchases of Central Government securities under RBI's open market operations during 1985-86 was lower than that during the preceding year. However, the sales of securities during 1985-86 were substantially higher than in 1984-85. The net absorption of securities by the market (i.e. net sales) was substantially higher during 1985-86 than in 1984-85. During the first quarter of the financial year 1986-87, both purchases and sales of securities were lower than those in the corresponding quarter of 1985-86.

The sales of securities during the financial year 1985-86 amounted to Rs.2,613.3 crores which was more than twice the quantum of sales in 1984-85 (Rs.1,199.1 crores). The purchases of securities at Rs.882.4 crores recorded a decline of 1.8 per cent over the purchases in 1984-85 (Rs.898.9 crores). The net sales of securities showed a substantial increase from Rs.300.2 crores in 1984-85 to Rs.1,730.9 crores in 1985-86. This may be attributed partly to an increase in SLR from 36 per cent to 37 per cent as also to stricter enforcement of SLR maintenance on a daily basis during the year.

During the first quarter of financial year 1986-87, both purchases and sales of securities were lower than those in the corresponding quarter of the previous year. There was a steep decline in the sales of securities to Rs.324.0 crores as compared with Rs.1,095.8 crores in the corresponding quarter of 1985-86. The purchases of securities which were of the order of Rs.134.2 crores in the first quarter of 1985-86 also declined to Rs.54.0 crores during April-June 1986 as RBI did not subscribe to the Central Government loans floated during the quarter. The net sales of securities stood at Rs.270.0 crores during the first quarter of 1986-87 as compared with Rs.961.6 crores in the corresponding quarter of the previous year.

The data on purchases and sales of Government securities during the last five years are presented in Table IX-6. Data on aggregate purchases and sales inclusive of those effected periodically out of the surplus funds of the IDBI, the EXIM Bank and the NABARD under a special arrangement are also indicated in the Table. There was a substantial increase in the net sales of Government securities under the special arrangement also.

Table IX-6: Reserve Bank's Open Market Operations

(Rs. in crores)

Year	Purchases	Sales	Net Sales
1	2	3	4
1981-82	732.6	735.9	3.3
	(1865.2)	(2158.5)	(293.3)
1982-83	1223.1	2185.1	962.0
	(3521.5)	(4792.2)	(1270.7)
1983-84	827.5	891.3	63.8
	(3026.1)	(3717.9)	(691.8)
1984-85	898.9	1199.1	300.2
	(4444.7)	(4419.3)	(−25.4)
1985-86	882.4	2613.3	1730.9
	(5345.7)	(7276.7)	(1931.0)
April-June			
1985-86	134.2	1095.8	961.6
	(1305.5)	(2094.4)	(788.9)
1986-87	54.0	324.0	270.0
	(1395.2)	(1426.6)	(31.4)

Notes: 1. Figures shown in brackets are inclusive of purchases and sales effected from time to time out of the surplus funds of IDBI, EXIM Bank and NABARD under a special arrangement.

2. Figures are inclusive of purchases from and sales to State Governments.

Gilt-edged Market

The gilt-edged market continued to remain subdued during 1985-86 (April-March). There was a decline in the prices of Central, State and semi-Government securities with the decline being higher at 1.5 percentage points in Central Government securities as compared with 0.8 and 0.2 percentage point in State Government and semi-Government securities respectively. Within the Central Government securities, medium-dated and long-dated securities recorded sizeable decline while short-dated securities remained steady.

The all-India index number of security prices (base : 1980-81=100) in respect of Government and semi-Government securities which stood at 92.6 at end-March 1985 moved up slightly in the range of 92.7 — 93.0 during May-July 1985. Subsequently, the index showed a declining trend reaching 92.1 on October 26, 1985 in the wake of floatation of Central Government loans on October 24, 1985. Thereafter, it fluctuated in the range of 91.3 — 92.2 during November 1985 — March 1986. The March-end index at 91.4 registered a fall of 1.3 percentage points over the year as compared with a decline of 0.5 percentage point in 1984-85.

The price index of Central Government securities remained steady at the end-March 1985 level of 91.1 upto the last week of May 1985. Thereafter, it moved upto 91.5 and fluctuated around this level till end-July. The index showed a declining trend during the rest of the period under review and stood at 89.7 on March 29, 1986, recording a fall of 1.5 percentage points over the year as compared with a decline of 0.6 percentage point during 1984-85.

The index of State Government securities which stood at 99.0 at end-March 1985 remained steady around that level till the second week of August. Thereafter, the index declined to 98.3 on August 31, 1985. A mild uptrend was noticed during the period September 1985 — mid-March 1986 and the index moved in a narrow range between 98.5 and 98.8. This trend was reversed during the last two weeks of March and the index declined to 98.2 on March 29, 1986. At this level, it recorded a fall of 0.8 percentage point over the year as compared with a decline of 0.1 percentage point last year.

The index of semi-Government securities at 99.3 on March 30, 1985 remained steady upto end-July 1985 and declined thereafter to 98.9 on August 31, 1985. It improved to 99.1 by the first week of September and remained at that level upto March 1986, registering a decline of 0.2 percentage point over the year.

In Bombay, while prices of some of the short-dated Central Government securities registered a small increase over the year ranging between Re.0.10 and Re.1.00, the other securities were marked lower ranging between Re.0.55 and Rs.4.10. The prices of most of the medium-dated and long-dated securities declined over the year with consequent improvement in their yield. The extent of decline varied between Rs.5.00 and Rs.11.25 in the case of loans with a maturity of 5-10 years, between Rs.3.45 and Rs.9.00 in respect of loans maturing in 10-15 years and between Re.0.30 and Rs.12.00 in the case of loans maturing after 15 years. However, a notable exception in the case of loans maturing after 15 years was 5¾ per cent National Defence loan, 2001 which appreciated by Rs.1.75 over the year. Both the non-terminable loans appreciated over the year, the 3 per cent 1986 or later and the 3 per cent Government Rupee Paper gaining Rs.4.60 and Rs.9.00 respectively. The improvement in yield in respect of Central Government securities ranged between 0.01 per cent and 2.22 per cent during the year compared with the increase in the range between 0.01 per cent and 2.29 per cent last year (Table IX-7).

The State Government securities displayed a mixed trend. Most of the securities of the Maharashtra, Andhra Pradesh, Gujarat, Rajasthan and Tamil Nadu Governments recorded increases ranging between Re.0.25 and Rs.5.70. Securities of Madhya Pradesh and Uttar Pradesh State Governments, however, declined in the range of Re.0.40 to Rs.5.60. In

Table IX-7: Price and Yield Variations of Central Government Securities

Loans		Price as on			Variation		Yield as on			Variation	
		28.3.1985 Rs.	31.3.1986 Rs.	27.6.1986 Rs.	Col. (3) over Col. (2)	Col. (4) over Col. (3)	28.3.1985 (per cent)	31.3.1986 (per cent)	27.6.1986 (per cent)	Col. (8) over Col. (7)	Col. (9) over Col. (8)
1		2	3	4	5	6	7	8	9	10	11
TERMINABLE											
Less than 5 years											
4½%	1986	98.25	—	—	—	—	6.15	—	—	—	—
5¼%	1986	99.00	—	—	—	—	6.08	—	—	—	—
5¼%	1986 NDL	98.90	98.00	—	−0.90	—	5.92	8.14	—	+2.22	—
6%	1986	100.65	—	—	—	—	5.39	—	—	—	—
6¼%	1986	100.50	—	—	—	—	5.85	—	—	—	—
6¼%	1986 II	—	—	—	—	—	—	—	—	—	—
5¼%	1987	96.05	96.05	97.50	—	+1.45	7.13	8.51	7.73	+1.38	−0.78
6%	1987	98.25	99.25	100.00	+1.00	+0.75	6.84	6.62	6.00	−0.22	−0.62
6¼%	1987	98.80	99.00	100.10	+0.20	+1.10	6.88	7.23	6.11	+0.35	−1.12
5¼%	1988	98.10	98.10	97.95	—	−0.15	5.91	6.20	6.39	+0.29	+0.19
6%	1988	95.75	95.20	95.20	−0.55	—	7.35	8.05	8.24	+0.70	+0.19
4¾%	1989	85.00	85.00	85.00	—	—	9.24	10.63	11.09	+1.39	+0.46
6%	1989	93.50	90.10	90.10	−3.40	—	7.69	9.24	9.44	+1.55	+0.20
6¼%	1989	94.75	94.75	94.75	—	—	7.74	8.17	8.31	+0.43	+0.14
6¾%	1989	97.50	97.50	97.50	—	—	7.41	7.57	7.62	+0.16	+0.05
6¾%	1989 II	—	—	—	—	—	—	—	—	—	—
7¾%	1989	100.00$	100.00$	100.00$	—	—	7.75	7.75	7.75	—	—
5½%	1990	89.50	85.40	85.40	−4.10	—	7.98	9.74	9.95	+1.76	+0.21
6½%	1990	94.70	94.80	99.10	+0.10	+4.30	7.73	7.95	6.75	+0.22	−1.20
9%	1990	—	100.00$	100.15	—	+0.15	—	9.00	8.96	—	−0.04
5 to 10 years											
5½%	1991	87.40	87.40	87.40	—	—	8.09	8.44	8.59	+0.35	+0.15
6¼%	1991	97.40	97.40	97.40	—	—	6.74	6.82	6.84	+0.08	+0.02
6¾%	1991	94.55	94.55	94.55	—	—	7,86	8.03	8.08	+0.17	+0.05
6¾%	1991 II	—	—	—	—	—	—	—	—	—	—
7¾%	1991	100.05	100.05	100.05	—	—	7.74	7.74	7.73	—	−0.01
7¾%	1991 II	—	—	—	—	—	—	—	—	—	—
7¾%	1991 III	—	—	—	—	—	—	—	—	—	—
7¾%	1991 IV	—	—	—	—	—	—	—	—	—	—
7¾%	1991 V	—	—	—	—	—	—	—	—	—	—
8%	1991	100.00$	100.00$	97.00	—	−3.00	8.00	8.00	8.81	—	+0.81

(Contd.)

Table IX-7: Price and Yield Variations of Central Government Securities *(Contd)*

Loans		Price as on			Variation		Yield as on			Variation	
		28.3.1985 Rs.	31.3.1986 Rs.	27.6.1986 Rs.	Col. (3) over Col. (2)	Col. (4) over Col. (3)	28.3.1985 (per cent)	31.3.1986 (per cent)	27.6.1986 (per cent)	Col. (8) over Col. (7)	Col. (9) over Col. (8)
1		2	3	4	5	6	7	8	9	10	11
10%	1991	—	—	100.00$	—	—	—	—	10.00	—	—
5½%	1992	86.00	81.00	81.00	−5.00	—	8.07	9.50	9.63	+1.43	+0.13
7¼%	1992	94.75	94.75	94.75	—	—	8.23	8.35	8.39	+0.12	+0.04
9¼%	1992	—	100.00$	100.00$	—	—	—	9.25	9.25	—	—
9¼%	1992 II	—	100.00$	100.00$	—	—	—	9.25	9.25	—	—
6%	1993	86.60	86.60	74.00	—	−12.60	8.25	8.45	11.24	+0.20	+2.79
6¼%	1993	88.40	88.40	88.40	—	—	8.21	8.42	8.48	+0.21	+0.06
6%	1994	91.50	91.50	91.50	—	—	7.28	7.40	7.43	+0.12	+0.03
6¾%	1994	90.80	90.80	90.80	—	—	8.22	8.36	8.40	+0.14	+0.04
7%	1994	89.00	89.00	89.00	—	—	8.73	8.87	8.90	+0.14	+0.03
8½%	1994	100.65	100.65	100.65	—	—	8.40	8.40	8.38	—	−0.02
8½%	1994 II	—	—	—	—	—	—	—	—	—	—
8½%	1994 III	—	—	—	—	—	—	—	—	—	—
8½%	1994 IV	100.00$	100.00$	—	—	—	8.50	8.50	—	—	—
8½%	1994 V	100.00$	100.00$	—	—	—	8.50	8.50	—	—	—
5½%	1995	85.90	79.40	79.40	−6.50	—	7.52	8.71	8.77	+1.19	+0.06
6¼%	1995	93.50	93.50	93.50	—	—	7.16	7.24	7.25	+0.08	+0.01
6½%	1995	87.10	87.10	84.10	—	−3.00	8.41	8.56	8.60	+0.15	+0.04
8¼%	1995	99.25	88.00	88.00	−11.25	—	8.35	10.16	10.20	+1.81	+0.04
8¼%	1995 II	100.00$	100.00$	—	—	—	8.25	8.25	—	—	—
8¼%	1995 III	100.00$	100.00$	—	—	—	8.25	8.25	—	—	—
9½%	1995	—	100.00$	100.00$	—	—	—	9.50	9.50	—	—
9½%	1995 II	—	100.00$	100.00$	—	—	—	9.50	9.50	—	—
10 to 15 years											
6¼%	1996	83.10	83.10	83.10	—	—	8.71	8.71	8.76	—	+0.05
10½%	1996	—	—	100.00$	—	—	—	—	10.50	—	—
6¼%	1997	81.75	81.75	81.75	—	—	8.65	8.78	8.82	+0.13	+0.04
6½%	1997	84.30	84.30	84.30	—	—	8.60	8.72	8.75	+0.12	+0.03
7¼%	1997	98.15	98.15	98.15	—	—	7.49	7.50	7.50	+0.01	—
6%	1998	76.35	72.90	72.90	−3.45	—	8.86	9.55	9.61	+0.69	+0.06
6¼%	1998	97.95	97.95	97.95	—	—	6.48	6.49	6.49	+0.01	—
7%	1998	85.05	85.05	85.05	—	—	8.96	9.06	9.08	+0.10	+0.02
5½%	1999	72.00	67.55	67.55	−4.45	—	8.76	9.60	9.66	+0.84	+0.06
5½%	1999 •	69.00	69.00	69.00	—	—	9.13	9.33	9.38	+0.20	+0.05

(Contd.)

Table IX-7: Price and Yield Variations of Central Government Securities *(Contd.)*

Loans		Price as on			Variation		Yield as on			Variation	
		28.3.1985 Rs.	31.3.1986 Rs.	27.6.1986 Rs.	Col. (3) over Col. (2)	Col. (4) over Col. (3)	28.3.1985 (per cent)	31.3.1986 (per cent)	27.6.1986 (per cent)	Col. (8) over Col. (7)	Col. (9) over Col. (8)
1		2	3	4	5	6	7	8	9	10	11
5½%	2000	69.00	69.00	69.00	—	—	9.00	9.18	9.23	+0.18	+0.05
6½%	2000	80.00	71.00	71.00	−9.00	—	8.92	10.04	10.08	+1.12	+0.04
15 years and above											
5¾%	2001	72.75	72.75	72.75	—	—	8.65	8.78	8.82	+0.13	+0.04
5¾%	2001 NDL	70.00	71.75	71.75	+1.75	—	8.93	8.85	8.88	−0.08	+0.03
6½%	2001	79.35	79.35	79.35	—	—	8.93	9.02	9.04	+0.09	+0.02
7½%	2001	88.10	80.50	80.30	−7.60	−0.20	8.89	9.76	9.78	+0.87	+0.02
5¾%	2002	71.35	71.35	71.35	—	—	8.69	8.82	8.85	+0.13	+0.03
6½%	2002	75.00	69.75	69.75	−5.25	—	9.44	9.87	9.90	+0.43	+0.03
7¾%	2002	89.55	89.55	89.55	—	—	8.95	8.98	9.00	+0.03	+0.02
5¾%	2003	76.00	76.00	55.50	—	−20.50	8.34	8.42	10.89	+0.08	+2.47
6½%	2003	73.75	68.75	68.75	−5.00	—	9.17	9.90	9.94	+0.73	+0.04
6½%	2004	74.70	66.00	66.00	−8.70	—	8.97	10.14	10.16	+1.17	+0.02
9½%	2004	100.00$	100.00$	100.00$	—	—	9.50	9.50	9.50	—	—
9½%	2004 II	—	—	—	—	—	—	—	—	—	—
9½%	2004 III	100.00$	100.00$	100.00$	—	—	9.50	9.50	9.50	—	—
9½%	2004 IV	100.00$	100.00$	100.00$	—	—	9.50	9.50	9.50	—	—
6½%	2005	72.75	64.00	64.00	−8.75	—	9.09	10.24	10.26	+1.15	+0.02
8¼%	2005	91.05	91.05	91.05	—	—	9.10	9.14	9.14	+0.04	—
10½%	2005	—	100.00$	100.00$	—	—	—	10.50	10.50	—	—
10½%	2005 II	—	100.00$	100.00$	—	—	—	10.50	10.50	—	—
6¾%	2006	77.00	65.00	65.00	−12.00	—	9.24	10.36	10.38	+1.12	+0.02
11½%	2006	—	—	100.40	—	—	—	—	11.46	—	—
6¾%	2007	74.95	64.00	64.00	−10.95	—	9.44	10.33	10.35	+0.89	+0.02
9½%	2008	98.00	97.50	97.50	−0.50	—	9.69	9.74	9.74	+0.05	—
10⁴/s%	2008	—	100.00$	100.00$	—	—	—	10.80	10.80	—	—
10⁴/s%	2008 II	—	100.00$	100.00$	—	—	—	10.80	10.80	—	—
10⁴/s%	2008 III	—	100.00$	100.00$	—	—	—	10.80	10.80	—	—
7%	2009	72.75	68.00	68.00	−4.75	—	9.44	10.02	10.04	+0.58	+0.02
7½%	2010	77.20	71.50	71.50	−5.70	—	9.51	10.16	10.17	+0.65	+0.01

(Contd.)

Table IX-7: Price and Yield Variations of Central Government Securities *(Concld.)*

Loans		Price as on			Variation		Yield as on			Variation	
		28.3.1985 Rs.	31.3.1986 Rs.	27.6.1986 Rs.	Col. (3) over Col. (2)	Col. (4) over Col. (3)	28.3.1985 (per cent)	31.3.1986 (per cent)	27.6.1986 (per cent)	Col. (8) over Col. (7)	Col. (9) over Col. (8)
1		2	3	4	5	6	7	8	9	10	11
8¾%	2010	89.00	89.00	89.00	—	—	9.73	9.76	9.77	+0.03	+0.01
8%	2011	81.75	80.85	80.85	−0.90	—	9.59	9.72	9.72	+0.13	—
10¼%	2012	100.25	92.05	92.05	−8.20	—	10.23	11.00	11.02	+0.77	+0.02
10¼%	2012 II	—	—	—	—	—	—	—	—	—	—
9%	2013	88.50	81.70	81.70	−6.80	—	10.00	10.67	10.68	+0.67	+0.01
9%	2013 V	—	—	—	—	—	—	—	—	—	—
10%	2014	96.60	88.80	88.80	−7.80	—	10.30	11.02	11.02	+0.72	—
10%	2014 II	—	—	—	—	—	—	—	—	—	—
10%	2014 III	—	—	—	—	—	—	—	—	—	—
10%	2014 IV	—	—	—	—	—	—	—	—	—	—
10%	2014 V	—	—	—	—	—	—	—	—	—	
10½%	2014	100.30	100.00	100.00	−0.30	—	10.47	10.50	10.50	+0.03	—
10½%	2014 II	100.30	100.00	100.00	−0.30	—	10.47	10.50	10.50	+0.03	—
10½%	2014 III	100.00$	100.00	100.00	—	—	10.50	10.50	10.50	—	—
11½%	2015	—	100.60	100.60	—	—	—	11.44	11.44	—	—
11½%	2015 II	—	—	—	—	—	—	—	—	—	—
11½%	2015 III	—	—	—	—	—	—	—	—	—	—
11½%	2015 IV	—	100.00$	100.00$	—	—	—	11.50	11.50	—	—
11½%	2015 V	—	100.00$	100.00$	—	—	—	11.50	11.50	—	—
NON-TERMINABLE											
3% 1986 or later		93.00	97.60	97.90	+4.60	+0.30	3.23F	3.07F	3.06F	−0.16	−0.01
3% (Government Rupee Paper)		86.00	95.00	95.00	+9.00	—	3.49F	3.16F	3.16F	−0.33	—

NDL = National Defence Loans
* = Banks (Acquisition & Transfer) Compensation Bonds.
F = Flat Yield
$ = Issue Price.

the case of Assam, Bihar, Haryana, Jammu and Kashmir, Karnataka, Kerala, Orissa, Punjab, and West Bengal variations were confined to one or two scrips while in the case of other states prices did not vary over the year.

During the first quarter of the financial year 1986-87, the Reserve Bank's all-India weekly price index (base: 1980-81 = 100) for Government and semi-Government securities moved in the range between 91.3 and 91.5 and closed at 91.5 for the week ended June 28, 1986, recording a marginal increase of 0.1 percentage point over the quarter. The index of Central Government securities moved in the narrow range of 89.6 — 89.8 and closed at 89.8 recording a marginal rise of 0.1 percentage point. The index of State Government securities moved in the range of 98.0 — 98.2 and closed at 98.0 on June 28, 1986 showing a marginal decline of 0.2 percentage point; the index of semi-Government securities remained steady at 99.1 throughout the quarter.

In Bombay, prices of short-dated Central Government securities generally remained steady except for six scrips whose prices moved both ways. Medium-dated securities depicted a steady trend except for three scrips with a maturity of 5 to 10 years which declined by Rs.3.00 — Rs.12.60. In the case of long-dated securities two scrips were marked lower viz., 7½ per cent loan, 2001 with a marginal decline of Re.0.20 and 5¾ per cent loan, 2003 which lost Rs.20.50 over the quarter. Among non-terminables, the 3 per cent loan 1986 or later appreciated by Re.0.30.

The prices of most State Government securities remained steady during the quarter. Securities of a few State Governments like Maharashtra, Gujarat, Andhra Pradesh, Tamil Nadu and Uttar Pradesh showed marginal variations.

Term-lending Institutions

Financial assistance sanctioned by term-lending institutions (i.e. IDBI, IFCI, ICICI, IRBI, UTI, LIC, GIC and its subsidiaries, SFCs and SIDCs/SIICs) during 1985-86 (April-March) increased by 15.8 per cent to Rs.6,414.8 crores (Table IX-8). Assistance disbursed by these institutions also rose substantially by 39.1 per cent during the year to Rs.4,802.5 crores. Sanctions of rupee loans increased by 15.1 per cent to Rs.4,861.7 crores and disbursements by 26.5 per cent to Rs.3,588.4 crores; both sanctions and disbursements of foreign currency loans rose sharply by 37.9 per cent and 84.2 per cent, respectively, to Rs.463.7 crores and Rs.320.0 crores, respectively. Sanctions by way of underwriting and direct subscriptions to shares and debentures increased to Rs.1,027.5 crores from Rs.730.5 crores in 1984-85. Guarantees sanctioned declined sharply from Rs.247.7 crores in 1984-85 to Rs.61.9 crores in 1985-86, whereas guarantees issued/executed rose from Rs.9.3 crores in 1984-85 to Rs.151.3 crores in 1985-86.

Institution-wise, as in the previous year, IDBI provided the largest assistance, accounting for 39.6 per cent of total sanctions and 43.2 per cent of total disbursements, by all term-lending institutions (Table IX-9).

Soft Loan Scheme for Modernisation

The Soft Loan Scheme for Modernisation (which became effective from January 1, 1984 consequent upon modification of the erstwhile Soft Loan Scheme introduced in November 1976) is operated jointly by IDBI, IFCI and ICICI and covers deserving units in all types of industries. Assistance under the scheme is available to production units for financing modernisation primarily aimed at upgradation of process, technology and product, export orientation, import substitution, energy saving, prevention of pollution, conservation/substitution of scarce raw materials and other inputs including re-cycling/recovery of wastes and by-products, improvement in capacity utilisation through increase in productivity and removal of bottlenecks, and improvements in material handling.

Table IX-8: Assistance Sanctioned and Disbursed by Financial Institutions †

(Rupees crores)

Year (April-March)	Rupee Loans		Foreign Currency Loans		Underwriting and Direct Subscriptions				Guarantees		Total	
					Ordinary and Preference Shares		Debentures					
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	2	3	4	5	6	7	8	9	10	11	12	13
1983-84*	3,274.7	2,466.3	281.8	135.3	180.9	57.6	246.8	230.7	69.8	2.3	4,054.0	2,892.2
	(+17.6)	(+20.7)	(+114.1)	(+5.5)	(+66.3)	(−38.5)	(+51.1)	(+155.5)	(+21.6)	(−45.2)	(+24.9)	(+22.5)
1984-85*	4,223.6	2,836.0	336.3	173.7	273.2	66.1	457.3	368.4	247.7	9.3	5,538.1	3,453.5
	(+29.0)	(+15.0)	(+19.3)	(+28.4)	(+51.0)	(+14.8)	(+85.3)	(+59.7)	(+254.9)	(+304.3)	(+36.6)	(+19.4)
1985-86*	4,861.7	3,588.4	463.7	320.0	224.0	62.2	803.5	680.6	61.9	151.3	6,414.8	4,802.5
	(+15.1)	(+26.5)	(+37.9)	(+84.2)	(−18.0)	(−5.9)	(+75.7)	(+84.7)	(−75.0)	(+1,526.9)	(+15.8)	(+39.1)

† Covers IDBI, IFCI, ICICI, IRBI, UTI, LIC, GIC and its subsidiaries, SFCs, SIDCs/SIICs.

* Provisional.

Notes: 1. The data exclude: (i) IDBI refinance to SFCs and SIDCs, subscriptions to shares and bonds of financial institutions and seed capital assistance through SFCs, SIDCs to avoid double counting; (ii) suppliers' credit and equipment leasing by ICICI; (iii) equipment leasing, hire-purchase, sanctions to Textile Processing Corporation of India Ltd., and lines of credit to state-level institutions by IRBI; (iv) resources support to other institutions and short-term loans by LIC.

2. Data relate to 25 SIDCs for 1983-84 & 1984-85 and 26 SIDCs for 1985-86.

3. Figures in brackets indicate percentage variations over previous year.

Source: Industrial Development Bank of India.

Table IX-9: Institution-wise Financial Assistance

(Year: April-March) (Rupees crores)

Institutions	1984-85*		1985-86*		Percentage change in 1985-86 over 1984-85	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	2	3	4	5	6	7
IDBI ‡	2,558.4	1,477.7	2,537.2	2,075.8	− 0.8	+ 40.5
	(46.2)	(42.8)	(39.6)	(43.2)		
IFCI ‡	418.0	275.7	499.2	404.4	+ 19.4	+ 46.7
	(7.5)	(8.0)	(7.8)	(8.4)		
ICICI ‡	513.5	344.0	554.4	397.7	+ 8.0	+ 15.6
	(9.3)	(10.0)	(8.6)	(8.3)		
IRBI	105.9	52.6	73.7	64.3	− 30.4	+ 22.2
	(1.9)	(1.5)	(1.1)	(1.3)		
UTI	357.3	236.2	696.6	528.9	+ 95.0	+ 123.9
	(6.5)	(6.8)	(10.9)	(11.0)		
LIC	219.9	161.5	383.6	261.9	+ 74.4	+ 62.2
	(4.0)	(4.7)	(6.0)	(5.5)		
GIC and its subsidiaries	144.1	110.5	153.0	107.3	+ 6.2	− 2.9
	(2.6)	(3.2)	(2.4)	(2.2)		
SFCs	743.1	497.7	1,008.8	607.3	+ 35.8	+ 22.0
	(13.4)	(14.4)	(15.7)	(12.7)		
SIDCs/SIICs ‡	477.9	297.6	508.3	354.9	+ 6.4	+ 19.3
	(8.6)	(8.6)	(7.9)	(7.4)		
Total	**5,538.1**	**3,453.5**	**6,414.8**	**4,802.5**	**+ 15.8**	**+ 39.1**
	(100.0)	**(100.0)**	**(100.0)**	**(100.0)**		

‡ Including guarantees * Provisional

Notes: 1. The data exclude: (i) IDBI refinance to SFCs and SIDCs, subscriptions to shares and bonds of financial institutions and seed capital assistance through SFCs and SIDCs to avoid double counting; (ii) suppliers' credit and equipment leasing by ICICI; (iii) equipment leasing, hire-purchase, sanctions to Textile Processing Corporation of India Ltd., and lines of credit to state-level institutions by IRBI; (iv) resources support to other institutions and short-term loans by LIC.

2. Data relate to 25 SIDCs for 1984-85 and 26 SIDCs for 1985-86.

3. Figures in brackets indicate percentage shares of each institution in total.

Source: Industrial Development Bank of India.

During 1985-86 (April-March), total assistance sanctioned and disbursed under the scheme amounted to Rs.339.2 crores and Rs.113.1 crores, respectively, compared with Rs.314.3 crores and Rs.72.9 crores, respectively, in the previous year. Cumulative sanctions and disbursements up to end of March 1986 aggregated Rs. 1,771.4 crores and Rs.807.6 crores, respectively (Table IX-10).

Foreign Currency Borrowings

The rupee resources of term-lending institutions are augmented from time to time by Government contributions to share capital and loans, RBI assistance, and market borrowings, etc., while their foreign currency resources — the major portion of which is traditionally provided by the World Bank, other development finance agencies and multilateral and bi-lateral aid — are supplemented by borrowings from international capital markets.

During 1985-86 (April-March), IDBI raised a syndicated loan of Yen 10 billion (of which Yen 5 billion was on tax-spared basis) in the Euromarket in July 1985. In November 1985, IDBI swapped rupee funds for US $ 20 million raised by the Housing Development Finance Corporation Ltd. (HDFC) under the US Agency for International Development Guarantee Programme by issuing notes in the US market.

Table IX-10: Progress of Soft Loan Scheme (upto end of March 1986)

Industry	Applications received *		Sanctions		Disbursements	Column (6) as per cent of column (5)
	No. of applications	Amount (Rs. crores)	No. of applications	Amount (Rs. crores)	Amount (Rs. crores)	
1	2	3	4	5	6	7
Textiles	457	985.6	450	768.6	439.4	57.2
	(433)	(909.7)	(418)	(694.2)	(387.5)	(55.8)
Cement	36	481.2	33	311.6	96.8	31.1
	(29)	(263.7)	(28)	(172.7)	(86.5)	(50.1)
Sugar	48	124.0	46	93.8	56.7	60.4
	(46)	(130.8)	(43)	(74.5)	(16.7)	(22.4)
Jute	29	91.5	29	56.3	17.2	30.6
	(29)	(90.2)	(28)	(54.2)	(52.7)	(97.2)
Engineering	179	402.5	172	303.9	158.6	52.2
	(158)	(345.4)	(154)	(267.2)	(140.7)	(52.7)
Others	61	279.2	53	237.2	38.9	16.4
	(30)	(246.9)	(20)	(169.4)	(10.4)	(6.1)
Total	**810**	**2,364.0**	**783**	**1,771.4**	**807.6**	**45.6**
	(725)	**(1,986.7)**	**(691)**	**(1,432.2)**	**(694.5)**	**(48.5)**

* After adjusting proposals rejected/withdrawn/closed.
Note: Figures in brackets indicate progress upto end-March 1985.
Source: Industrial Development Bank of India.

HDFC's notes are counter-guaranteed by IDBI. Also, a tax-spared syndicated Euro-dollar loan of US$25 million and tax-spared Revolving Underwriting Facility of US$ 30 million were raised in January and February 1986, respectively. IDBI was the first Indian financial institution to enter the West German capital market to raise DM 100 million through a public bond issue which it made in January 1986. IFCI raised in July 1985 and March 1986 Euro-market loans of US$25 million each from a consortium of foreign banks. It also raised through private placement of bonds in the Japanese Yen market Yen 5 billion. ICICI signed a syndicated loan agreement for US$ 25 million and ECU 20 million in August 1985. In October 1985, it made a second private placement of bonds for Japanese Yen 5 billion.

Industrial Development Bank of India

The Industrial Development Bank of India (IDBI) recorded further growth in its operations during 1985-86 (April-March). Aggregate assistance (including guarantees) sanctioned by it increased by 7.5 per cent to Rs.3,714.8 crores while disbursements rose sharply by 33.1 per cent to Rs.2,759.7 crores (Table IX-11).

A. Direct Industrial Assistance

Direct industrial assistance sanctioned by IDBI during 1985-86 through project loans, including assistance under modernisation scheme, technical development fund scheme, equipment finance scheme and underwriting of and direct subscriptions to shares and debentures of industrial concerns aggregated Rs.1,121.3 crores which was 10.5 per cent lower compared to Rs.1,253.4 crores in 1984-85. It may be recalled here that in 1984-85 IDBI had sanctioned assistance to some large projects, including a fertiliser project for which assistance of Rs.439.5 crores was extended. In 1985-86 the bank did not extend assistance for any such large project. Disbursements of direct

Table IX-11 : Assistance sanctioned by the IDBI and utilised by the assisted concerns during 1984-85 and 1985-86 (April-March) and since inception.

(Rupees crores)

Type of Assistance	Sanctions (effective)		Cumulative sanctions since inception upto end-March 1986	Disbursements		Cumulative disbursements since inception upto end-March 1986
	1984-85	1985-86		1984-85	1985-86	
1	2	3	4	5	6	7
1. Direct industrial assistance	1,253.4	1,121.3	6,158.9	552.8	794.5	3,997.3
	(36.3)	(30.2)	(33.2)	(26.7)	(28.8)	(29.6)
(a) Direct loans to industrial concerns	1,115.9	1,046.6	5,596.3	544.1	785.0	3,843.5
(i) Normal*	1,093.8	1,010.6	5,459.4	528.8	765.4	3,747.1
(ii) Technical Development Fund	20.9	25.2	124.8	14.9	19.4	95.8
(iii) Equipment Finance	1.2	10.8	12.1	0.4	0.2	0.6
(b) Underwriting of and direct subscriptions to shares and debentures of industrial concerns	137.5	74.7	562.6	8.7	9.5	153.8
2. Refinance of industrial loans	1,241.9	1,564.0	7,225.3	930.4	1,047.4	5,556.8
	(36.0)	(42.1)	(39.0)	(44.9)	(37.9)	(41.1)
3. Rediscounting of bills	634.1	928.0	4,199.9	477.8	697.7	3,181.3
	(18.3)	(25.0)	(22.6)	(23.0)	(25.3)	(23.5)
4. Subscriptions to shares and bonds of financial institutions	118.4	61.6	608.9	101.4	62.1	575.6
	(3.4)	(1.7)	(3.3)	(4.9)	(2.3)	(4.2)
5. Seed capital	13.8	16.2	56.9	9.1	11.4	35.5
	(0.4)	(0.4)	(0.3)	(0.4)	(0.4)	(0.3)
6. Guarantees for loans and deferred payments	192.6	23.7	301.9	2.2**	146.6**	173.4**
	(5.6)	(0.6)	(1.6)	(0.1)	(5.3)	(1.3)
***Total (1 to 6)**	**3,454.2**	**3,714.8**	**18,551.8**	**2,073.7**	**2,759.7**	**13,519.9**

* Includes assistance under modernisation scheme.

** Guarantees executed.

Notes: 1. Data are provisional.

2. Figures in brackets are percentages to total.

Source: Industrial Development Bank of India.

assistance in 1985-86, however, rose sharply by 43.7 per cent to Rs.794.5 crores.

Direct loans sanctioned to industrial concerns, at Rs.1,046.6 crores accounted for 93.3 per cent of the direct industrial assistance sanctioned. Under direct loans, while sanctions of normal loans (i.e. project loans plus assistance under the modernisation scheme) declined from Rs.1,093.8 crores in 1984-85 to Rs.1,010.6 crores in 1985-86; sanctions under the technical development fund rose from Rs.20.9 crores to Rs.25.2 crores in the corresponding period; sanctions under the equipment finance scheme introduced in 1984-85 rose from Rs.1.2 crores to Rs.10.8 crores in 1985-86. Sanctions by way of underwriting of and direct subscriptions to shares and debentures of industrial concerns declined from Rs.137.5 crores in 1984-85 to Rs.74.7 crores in 1985-86.

B. Indirect Finance

IDBI provides indirect assistance basically to tiny, small and medium enterprises mainly by way of refinance of industrial loans granted by SFCs, SIDCs, Commercial banks, Co-operative banks and RRBs, rediscounting of bills arising out of sale of indigenous machinery on deferred payment basis and seed capital assistance to new entrepreneurs generally through SFCs and SIDCs. IDBI also extends resources

support by way of subscription to shares and bonds of SFCs, SIDCs, etc. Sanctions and disbursements of indirect assistance by IDBI under refinance of industrial loans and rediscounting of bills aggregated Rs.2,492.0 crores and Rs.1,745.1 crores, respectively, during 1985-86.

(i) Refinance of Industrial Loans

Refinance assistance sanctioned during 1985-86 at Rs.1,564.0 crores recorded an increase of 25.9 per cent compared with that sanctioned in 1984-85. Utilisation of refinance assistance at Rs.1,047.4 crores was higher by 12.6 per cent compared with that in 1984-85.

(ii) Bills Rediscounting

Sanctions under bills rediscounting at Rs.928.0 crores were higher by 46.3 per cent compared with those in 1984-85. Disbursements under bills rediscounting at Rs.697.7 crores were higher by 46.0 per cent as compared with those in the previous year.

(iii) Resources support to other institutions and Seed capital assistance

During 1985-86, IDBI subscribed Rs.62.1 crores to shares and bonds of State level and all-India financial institutions and provided seed capital assistance of Rs.11.4 crores.

C. Policy Changes

IDBI initiated a number of policy measures during 1985-86. An event of far-reaching importance in the organisational structure and policy thrust of IDBI was the setting up of a separate fund called Small Industries Development Fund to foster the growth of small scale industries. During the year, norms relating to promoters' contribution were reviewed and some changes were effected therein. Certain provisions of the refinance and bills rediscounting schemes were liberalised and modified to facilitate quicker flow of institutional assistance to a much larger number of small and medium projects. Steps were taken by IDBI to set up a new public limited company called the Stock Holding Corporation of India Limited to provide post-trade service facilities relating to security transactions of all-India financial and investment institutions. The details relating to important policy changes introduced or announced by IDBI during the year are outlined below:

(a) Small Industries Development Fund

The Small Industries Development Fund (SIDF) was set up on May 20, 1986 exclusively to facilitate development, expansion, modernisation, diversification and rehabilitation of the small sector covering a wide spectrum of units in the small-scale, tiny, village and cottage industries. SIDF will act as a focal point for financial as well as non-financial assistance to the small industrial sector. Initially, SIDF will have a corpus of Rs.2,500 crores. The fund has been created with cash contribution of Rs.100 crores from IDBI's General Fund and transfer of outstanding assistance of Rs.2,400 crores to the SSI Sector (including SRTOs) under refinance, seed capital and bills rediscounting schemes.

(b) Integrated Term Loan Facility for Small Projects

With a view to alleviating the difficulties faced by new small projects in getting working capital in time, IDBI introduced a new scheme of integrated term loan facility under which an amount of upto Rs.1 lakh inclusive of working capital requirements is available per unit to small industrial concerns. This facility, provided under the refinance is not, however, available for existing units.

(c) Stock Holding Corporation of India Ltd.

The Stock Holding Corporation of India Ltd. (SHCI) sponsored by all-India financial institutions is being set up as a public limited company to secure efficient post-trade services relating to transactions in securities conducted by financial institutions viz., IDBI, IFCI, ICICI, IRBI, LIC, UTI and GIC. The corpora-

tion would hold custody of securities of the sponsoring institutions and handle transfer of securities as also collection of dividend/interest in respect of such securities on their behalf. In course of time, SHCI would render service to the general public also.

(d) Liberalisation/modifications under the Refinance Scheme

i) The refinance limit of Rs.90 lakhs per project sanctioned by SIDCs would be relaxed by IDBI, provided SIDCs satisfy IDBI that banks would not be able to consider sanction of term loans to the concern upto Rs.80 lakhs. Marginal over-runs of project costs will be refinanced by IDBI without a detailed second appraisal provided the overrun does not exceed 20 per cent of the original cost or Rs.20 lakhs, whichever is lower. In case of new projects, IDBI would consider grant of refinance to SFCs/SIDCs under certain conditions even if the project cost limit (Rs.300 lakhs) exceed marginally.

ii) With a view to facilitating flow of institutional assistance to large number of small and medium scale units, IDBI revised downwards, the extent of refinance available to commercial banks. Accordingly, loans granted by commercial banks to all categories of borrowers (other than those covered under the composite loan scheme to scheduled castes/tribes, physically handicapped entrepreneurs and to SSI units) are being considered for refinance upto 60 per cent of the loan amounts instead of 75 per cent earlier. In respect of SFCs/SIDCs, State Co-operative Banks and RRBs, IDBI provides refinance upto 85 per cent of the loans granted to SSIs and SRTOs covered under the Normal Refinance Scheme and 75 per cent of the loans to medium sized units.

iii) One of the eligibility conditions for assistance under IDBI's Refinance Scheme for Modernisation is that the unit should have been in existence for at least 5 years. This condition was relaxed in January 1986 in case of units in the electronics and automobile components sector since these units are exposed to rapid technological obsolescence.

iv) IDBI introduced a new scheme in terms of which term loans granted by SFCs/SIDCs to assisted units for acquiring diesel generating sets for captive use have been made eligible for refinance assistance subject to promoters' contribution of 10 per cent. Refinance assistance upto 75 per cent of such loans would be granted on usual terms and conditions as applicable under the general scheme of refinance, provided the project conforms to the usual eligibility criteria.

v) IDBI has decided to extend refinance assistance (not exceeding Rs.25,000 per borrower) to projects promoted by ex-servicemen trained under the scheme called Preparing Ex-servicemen for Self Employment (PEXSEM), a training scheme of the Union Ministry of Defence, provided the terms of the loans conform to the norms applicable under the Composite Loan Scheme.

vi) Refinance facilities have been extended under the Composite Loan Scheme to cover upto Rs.25,000 granted to repatriates from Sri Lanka for setting up industrial units in the tiny, cottage and village industrial sector irrespective of location of such units.

vii) Relief refinance facilities subject to a maximum of Rs.5 lakhs per unit have been made available to institutions in Tamil Nadu and the Union Territory of Pondicherry in respect of their loans to flood affected industrial units in the districts of Madras, Chingelput, South Arcot, Thanjavur and Pondicherry.

(e) Composite Loan Scheme — Repayment period

IDBI has done away with the stipulation of minimum period of 7 years for loans under the Composite Loan Scheme. Instead, the eligible institutions have been allowed to fix repayment periods of between 3 and 10 years on a case-to-case basis. These norms have been made applicable in respect of sanctions made after December 15, 1985.

(f) Bills Rediscounting Scheme

IDBI waived upto June 20, 1986 the requirement of minimum 10 per cent down payment in respect of purchases of machinery/vehicles by State Road Transport Corporations (SRTCs) and other eligible corporations under the Bills Rediscounting Scheme. IDBI also waived upto June 30,1986 the requirement of 10 per cent down payment in respect of machinery/equipment purchased by State Electricity Boards (SEBs) and other eligible corporations under this scheme. The maximum repayment period for SRTOs was relaxed from 4 years to 5 years in respect of loans from commercial banks to SRTOs during the period from December 1985 to June 30, 1986.

IDBI has set up a special cell called "NRI Cell" to disseminate information on investment opportunities in India and guide non-resident Indian entrepreneurs.

In the Long Term Fiscal Policy announced by the Government of India in December 1985, IDBI has been entrusted with the responsibility of administering the Venture Capital Fund and mobilising funds for long-term development purposes.

The IDBI (Amendment) Bill, 1985 passed by the Parliament provides for increasing the authorised capital of the IDBI, widening the definition of industrial concerns under the IDBI Act so as to enable IDBI to extend assistance to modern industrial activities, services sector and ancillary activities taken up by small entrepreneurs and strengthening the institution building role of IDBI.

Industrial Finance Corporation of India

The Industrial Finance Corporation of India (IFCI) sanctioned and disbursed financial assistance of Rs.499.2 crores and Rs.404.4 crores, respectively, during 1985-86 (April-March) (Table IX-12). Sanctions rose by 19.4 per cent and disbursements by 46.7 per cent over the year. IFCI assisted 401 projects during the year as against 367 in the previous year. Total sanctions included Rs.78.2 crores for 86 projects under the Soft Loan Scheme for Modernisation. IFCI's cumulative sanctions and disbursements up to end-March 1986 aggregated Rs.2,888.1 crores and Rs.2,162.0 crores, respectively.

Table IX-12: Financial Assistance Sanctioned and Disbursed by IFCI

(Year: April-March) (Rupees crores)

Type of Assistance	1984-85		1985-86		Cumulative Assistance as at the end of March 1986	
	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements
1	2	3	4	5	6	7
1. Rupee loans	285.0	247.1	341.7	347.7	2,158.8	1,776.5
2. Foreign currency loans	73.0	21.4	108.3	51.0	405.7	259.0
3. Underwriting and direct subscriptions(i+ii)	38.8	4.4	39.8	5.2	227.8	68.6
(i) Ordinary and Preference shares	38.8	4.3	33.9	4.6	200.3	55.5
(ii) Debentures	—	0.1	5.9	0.6	27.5	13.1
4. Guarantees	21.2	2.8	9.4	0.5	95.8	57.9
Total (1 to 4)	**418.0**	**275.7**	**499.2**	**404.4**	**2,888.1**	**2,162.0**

Notes: 1) Sanctions for the years 1984-85 and 1985-86 are net effective during the respective years and cumulative sanctions are net as on March 31, 1986.

2) The rupee equivalent of foreign currency loans sanctioned and disbursed are converted at TT selling rates of exchange as on June 30, 1984 for the year 1984-85 and at TT selling rates of exchange as on June 30, 1985 for the year 1985-86 and cumulative as on March 31, 1986.

Source: Industrial Finance Corporation of India.

Sanctions of rupee loans rose by 19.9 per cent to Rs.341.7 crores and of foreign currency loans by 48.4 per cent to Rs.108.3 crores equivalent. Disbursements of rupee loans rose by 40.7 per cent to Rs.347.7 crores while disbursements of foreign currency loans more than doubled to Rs.51.0 crores equivalent.

Out of total sanctions of loans (both rupee and foreign currency) of Rs.450.0 crores, Rs.208.9 crores (46.4 per cent) were sanctioned to newly established companies and Rs.241.1 crores to existing companies. The amount sanctioned to existing companies included Rs.160.9 crores for expansion of existing capacity/modernisation and Rs.80.2 crores for new projects. Sanctions for underwriting of and direct subscriptions to industrial securities rose from Rs.38.8 crores to Rs.39.8 crores and disbursements from Rs.4.4 crores to Rs.5.2 crores. IFCI sanctioned guarantees amounting to Rs.9.4 crores and issued guarantees of Rs.0.5 crore during the year.

Out of total sanctioned assistance of Rs.499.2 crores, an amount of Rs.306.1 crores was sanctioned for new projects. Assistance sanctioned to projects in notified backward districts amounted to Rs.294.2 crores or 58.9 per cent of total assistance sanctioned during the year. As in the past, important industries such as sugar, cotton textiles, fertilisers, cement, power generation, paper, industrial machinery, etc., accounted for 50.3 per cent of total assistance sanctioned during the year.

As on March 31, 1986, IFCI had sanctioned total assistance of Rs.321.7 crores under the Soft Loan Scheme/Soft Loan Scheme for Modernisation. Sanctions during 1985-86 under IFCI-sponsored Risk Capital Foundation amounted to Rs.3.0 crores; this amount was sanctioned to 41 promoters of 24 projects.

The fifth technical consultancy organisation under the lead of IFCI, viz., Haryana Industrial Consultants Ltd. (HARICON) commenced business on September 2, 1985.

During the year, IFCI started four new promotional schemes, viz., (i) Interest subsidy scheme for women entrepreneurs and (ii) Consultancy fee subsidy schemes for (a) providing marketing assistance to small-scale units, (b) encouraging the modernisation of tiny, small-scale and ancilliary units, and (c) control of pollution in the small and medium scale sector units. The utilisation of subsidy under these four schemes amounted to Rs.67 lakhs.

Industrial Credit and Investment Corporation of India Ltd.

The Industrial Credit and Investment Corporation of India Ltd. (ICICI) sanctioned and disbursed total assistance of Rs.708.2 crores and Rs.482.2 crores, respectively, during 1985-86 (April-March) showing a rise of 14.1 per cent in sanctions and 22.8 per cent in disbursements over the year (Table IX-13).

While sanctions of rupee loans declined by 3.9 per cent to Rs.272.2 crores, disbursements of rupee loans rose by 10.0 per cent to Rs.242.9 crores during the year. Sanctions and disbursements of foreign currency loans rose by 40.3 per cent and 30.1 per cent, respectively, during the year to Rs.226.1 crores and Rs.144.1 crores, respectively. However, sanctions and disbursements of assistance by way of underwriting of and direct subscriptions to shares and debentures declined from Rs.48.4 crores to Rs.41.0 crores and from Rs.11.9 crores to Rs.10.2 crores, respectively. ICICI's sanctions in respect of suppliers' credit rose marginally from Rs.85.7 crores in 1984-85 to Rs.88.6 crores in 1985-86, while the amount disbursed almost doubled from Rs.34.4 crores in 1984-85 to Rs.67.1 crores in 1985-86. Leasing operations of ICICI expanded substantially. Sanctions under leasing more than trebled during 1985-86 to Rs.65.2 crores. Disbursements during the year also rose to Rs.17.4 crores from Rs.14.3 crores in the previous year. The equipment leased out by ICICI covered a wide range like earth moving equipments, machine tools, computers and certain equipments used in textile industry and for modernisation of plant and balancing facilities.

Table IX-13: Financial Assistance Sanctioned and Disbursed by ICICI

(Year: April-March) (Rupees crores)

Type of Assistance	1984-85		1985-86		Cumulative Assistance as at the end of March 1986	
	Sanctions	Disburse-ments	Sanctions	Disburse-ments	Sanctions	Disburse-ments
1	2	3	4	5	6	7
1. Rupee loans	283.2	220.8	272.2	242.9	1,643.1	1,321.8
2. Foreign currency loans	161.2	110.8	226.1	144.1	1,794.7	1,506.8
3. Underwriting and direct subscriptions (a+b)	48.4	11.9	41.0	10.2	329.6	146.5
(a) Ordinary and Preference shares	42.0	7.4	33.9	5.2	247.2	88.0
(b) Debentures	6.4	4.5	7.1	5.0	82.4	58.5
Total (1+2+3)	**492.8**	**343.5**	**539.3**	**397.2**	**3,767.4**	**2,975.1**
4. Guarantees	20.6	0.5	15.1	0.5	120.1	1.4
5. Suppliers' credit	85.7	34.4	88.6	67.1	331.7	201.6
6. Leasing	21.6	14.3	65.2	17.4	102.5	37.1
Total (1 to 6)	**620.7**	**392.7**	**708.2**	**482.2**	**4,321.7**	**3,215.2**

Source: Industrial Credit and Investment Corporation of India Ltd.

Assistance sanctioned and disbursed by ICICI to projects located in backward areas registered further rise from Rs.276.0 crores and Rs.187.5 crores, respectively, in 1984-85 to Rs.321.4 crores and Rs.215.0 crores, respectively in 1985-86.

Direct loans sanctioned to newly established companies declined marginally to Rs.193.0 crores and constituted 38.7 per cent of total direct loans sanctioned during 1985-86 compared with 44.0 per cent in the preceding year. While sanctions of direct loans to new projects declined by 26.3 per cent, sanctions of direct loans for expansion of existing capacity, modernisation, etc., of projects rose by 29.5 per cent to Rs.283.2 crores in 1985-86.

Unit Trust Of India

During 1985-86 (July-June) the operations of the Unit Trust of India (UTI) expanded further. Gross sales of units under all the schemes at Rs.868.7 crores were higher by 15 per cent compared with gross sales in 1984-85 (Table IX-14). This rise in sales was attained, it may be recalled, on top of a record rise of 129 per cent in 1984-85. The number of unit-holding accounts rose to 20 lakhs from 17 lakhs in 1984-85. The Trust's investible resources increased by 46.5 per cent to Rs.3,238.9 crores and income by Rs.128 crores to Rs.385 crores. The main factors which contributed to the growth in sales were the stepping up of the dividend rates during 1984-85 under various schemes and reintroduction of Monthly Income Unit Scheme twice during the year and launching of the Growing Income Unit Scheme 1986 with more attractive features.

Sales of units under the Trust's main scheme, viz., Unit Scheme 1964 at Rs.321.3 crores in 1985-86 were lower compared to Rs.381.6 crores in 1984-85. The unit capital under this scheme rose from Rs.1,016.3 crores in 1984-85 to Rs.1,313.6 crores in 1985-86. Sales under the Unit Scheme 1971 (ULIP) rose from Rs.31.5 crores to Rs.48.6 crores, and under the Capital Gains Unit Scheme (CGS — 1983) rose from Rs.205.2 crores to Rs.259.5 crores.

The Trust introduced three close-ended schemes during the year. These were: Monthly Income Unit Scheme (5) 1985, Monthly Income Unit Scheme with Growth (6) 1986, and Growing Income Unit Scheme 1986. Sales under these three schemes together amounted to Rs.218.5 crores constituting 25.2 per cent of total sales during the year. The Trust also intro-

Table IX-14: Sales and Repurchases of Units by Unit Trust of India

(Year: July-June) (Rupees crores)

Schemes	Sales		Repurchases		Outstanding as on June 30		Dividend Rate for 1985-86
	1984-85	1985-86*	1984-85	1985-86*	1985	1986*	(Per cent)
1	2	3	4	5	6	7	8
Unit Scheme 1964	381.6	321.3	12.3	24.1	1,016.3	1,313.6	15.25§
Unit Scheme 1971 (ULIP)	31.5**	48.6**	5.4	7.0	111.5	153.0	12.50
CRTS 1981	10.1	10.3	0.5	0.5	32.1	41.9	13.75
Income Unit Scheme 1982	—	—	0.6	0.6	66.6	66.0	13.00
Monthly Income Unit Schemes ‡‡ (1, 2, 3 & 4)	72.6£	—	0.9‡‡	1.3‡‡	154.6	153.3	12.00
Growth and Income Unit Scheme 1983	‡	—	0.2	0.2	13.2	13.0	10.00
Capital Gains Unit Scheme 1983	205.2	259.5	0.3‡‡	0.8‡‡	307.8	566.5	8.75
Income Unit Scheme 1985	55.2	2.5$	—	0.1‡‡	55.2	57.6	12.50
Monthly Income Unit Scheme (5) 1985	—	48.6	—	—	—	48.6	12.00
Monthly Income Unit Scheme with Growth (6) 1986	—	65.0	—	—	—	65.0	12.00
Growing Income Unit Scheme 1986	—	104.9	—	—	—	104.9	12.00
Children's Gift Growth Fund Unit Scheme 1986	—	8.0	—	—	—	8.0	12.50
Total	**756.2**	**868.7**	**20.2**	**34.6**	**1,757.3**	**2,591.4**	

* Provisional.

** Represents sales from contributions from new members, renewal contributions from existing members and dividend payable to existing members. ‡ Rs.0.03 lakh on clearance of objections.

‡‡ Premature withdrawals.

£ Rs.0.15 lakh on clearance of objections.

‡‡ Monthly Income Unit Scheme 1, 2 refers to year 1983 and 3, 4 refers to 1984 and 1985, respectively.

$ Sales through reinvestment under IUS - 1985 cumulative scheme.

§ Includes bonus dividend of 0.50 per cent.

Source: Unit Trust of India.

duced one open-ended scheme: viz., Children's Gift Growth Fund Unit Scheme 1986 (CGGF) which fetched Rs.8 crores. Sales under MIS (5) 1985 which were made on tap during September-October 1985 amounted to Rs.48.6 crores (from 23,246 applicants) while sales under the Monthly Income Unit Scheme with Growth (MISG) (6) 1986 (April-May 1986) netted Rs.65.0 crores. Unlike in the earlier series, a minimum 2 per cent growth of capital in the last year was assured under MISG (6) -1986.

The Growing Income Unit Scheme 1986 (cumulative and non-cumulative) was kept on tap during December 1985-January 1986. This 5½ year close-ended scheme provided for doubling of the original investment at maturity. This scheme was open to individuals including minors and institutions such as charitable and religious trusts of endowments and registered societies engaged as one of their activities in the advancement of the interest and welfare of old people, widows and physically and mentally handicapped persons. The scheme provided for a growing rate of return from 12 per cent in first six months to 12.5 per cent in next two years, 13 per cent in the following two years, and finally 13.5 per cent for the last year. It offered two options: cumulative and non-cumulative: under the cumulative scheme, dividend is automatically reinvested every six months and under the non-cumulative scheme it is payable half-yearly. Under both the schemes, the Trust will repurchase units at the end of 5½ years at a premium of not less than 2 per cent. However, repurchases will be allow-

ed after 3 years. While the minimum investment was fixed at 20 units of Rs.100 each, the maximum was fixed at 1,000 units (i.e. Rs.1 lakh) per application in case of individuals. Applicants were allowed to make more than one application and no maximum limit was stipulated for eligible institutions. Total sales under the scheme amounted to Rs.105 crores. The Children's Gift Growth Fund Unit Scheme 1986 launched by the Trust on April 14, 1986 was on tap till June 14, 1986. The scheme was intended to build up a fund for children to be exclusively used by them on their attaining the age of 21. The gift which could be given by any adult parent, relative or friend to any child below the age of 15 years will remain with the Trust and only the donee child will get it back on attaining the age of 21, although an option is available to get it back at the age of 18. The scheme assures a dividend of 12.5 per cent per annum besides bonus dividend every five years. The yearly dividend will be automatically reinvested at the July special offer price thus enabling the original investment to grow at a compound rate. The minimum number of units one could gift under the scheme was fixed at 50, although no maximum limit was prescribed. Total sale of units under this scheme amounted to Rs.8.0 crores. During the year, repurchases under all schemes of the Trust amounted to Rs.34.6 crores compared with Rs.20.2 crores in the previous year. Repurchases under the Unit Scheme 1964 amounted to Rs.24.1 crores as against Rs.12.3 crores in 1984-85. At the end of June 1986, unit capital under all the schemes aggregated Rs.2,591.4 crores compared with Rs.1,757.3 crores a year ago. Dividend rates were stepped up during 1985-86 in the case of a number of schemes. The dividend for the main scheme, viz., Unit Scheme 1964, was raised from 14.25 to 14.75 per cent, besides, for the first time, a bonus dividend of 0.5 per cent was declared making a total dividend of 15.25 per cent for the scheme. The dividend for other on-going schemes was also raised by 0.5 percentage point to 12.5 per cent for Unit Scheme 1971, 13.75 per cent for C R T S - 1981 and 8.75 per cent for CGS-1983. For the newly introduced CGGF, a 12.5 per cent dividend was declared.

Financial assistance provided by the Trust to the corporate sector increased substantially. The Trust's sanctions and disbursements of total assistance to this sector increased from Rs.357.3 crores and Rs.236.2 crores respectively, in 1984-85 to Rs.696.6 crores and Rs.528.9 crores, respectively, in 1985-86. There was a marked rise in the Trust's assistance by way of underwriting and direct subscriptions to shares and debentures, sanctions under this head increased from Rs.238.3 crores to Rs.469.4 crores while disbursements increased from Rs.186.8 crores to Rs.422.1 crores (Table IX-15).

Table IX-15: Financial Assistance Sanctioned and Disbursed by Unit Trust of India

(Year: April-March) (Rupees crores)

Type of Assistance	1984-85		1985-86		Cumulative Assistance as at the end of March 1986	
	Sanctions	Disbursements	Sanctions	Disbursements	Sanctions	Disbursements
1	2	3	4	5	6	7
1. Subscriptions to privately placed debentures and special deposits	119.0	49.4	227.2	106.7	650.7	403.5
2. Underwriting and direct subscriptions (a+b)	238.3	186.8	469.4	422.1	1,089.2	873.2
(a) Ordinary and Preference shares	2.7	1.5	25.4	4.2	87.3	50.7
(b) Debentures	235.6	185.3	444.0	417.9	1,001.9	822.5
Total	**357.3**	**236.2**	**696.6**	**528.9**	**1,739.9**	**1,276.7**

Source: Unit Trust of India.

Total investible funds of the Trust increased during the year by Rs.1,029.3 crores — the largest absolute rise so far in any year — and stood at Rs.3,238.9 crores as on June 30, 1986 (Table IX-16). Out of the Trust's total investments of this order, a sum of Rs.2,299.3 crores (71 per cent) was invested in the corporate sector. This amount included investments of Rs.368.4 crores (11.4 per cent) in equity shares, Rs.10.3 crores (0.3 per cent) in preference shares and Rs.1,227.4 crores (37.9 per cent) in debentures. Besides profitable deployment of funds in such instruments, the Trust provided financial support to State-level housing development corporations thus contributing its share for the promotion of socially oriented housing projects. Advance deposits against the Trust's investment commitments amounted to Rs.388.6 crores (12.0 per cent) and unsecured short term deposits with companies to Rs.253.9 crores (7.8 per cent).

Table IX-16: Investments by Unit Trust of India

(Rupees crores)

	Type of Investment	As on June 30, 1985	As on June 30, 1986*
A.	Total investments in Corporate Sector (1 to 7)	1,583.03	2,299.29
	Of which:	(71.6)	(71.0)
	1. Equity shares	279.09	368.43
		(12.6)	(11.4)
	2. Preference shares	10.30	10.28
		(0.5)	(0.3)
	3. Debentures	830.86	1,227.35
		(37.6)	(37.9)
	4. Advance deposits against investment commitments	247.05	388.63
		(11.2)	(12.0)
	5. Unsecured short-term deposits	170.72	253.89
		(7.7)	(7.8)
	6. Bridge finance	10.44	20.21
		(0.5)	(0.6)
	7. Application money	34.57	30.50
		(1.6)	(1.0)
B.	Other investments (8 and 9)	626.58	939.57
	Of which:	(28.4)	(29.0)
	8. Deposits and other investments with banks	471.46	659.45
		(21.3)	(20.4)
	9. Government securities	155.12	280.12
		(7.0)	(8.6)
C.	**Total investible funds (A + B)**	**2,209.61**	**3,238.86**
		(100.0)	**(100.0)**

* Provisional.
Note: Figures in brackets indicate percentage to total.
Source: Unit Trust of India.

The Trust opened three more branch offices — one each at Bhubaneshwar, Bangalore and Patna — to improve customer service and also augmented its field force of agents and chief representatives. It arranged for distribution and acceptance of application forms through certain departmental stores in Bombay and Madras and appointed dealers (Petrol pumps) of Hindustan Petroleum as its agents from whom literature and application forms of UTI can be obtained by the public.

The Unit Trust of India Act, 1963 was amended during the year with a view to widening the scope of business which the Trust can transact to enable it to effectively channelise the funds mobilised by it into more productive investment outlets both in India and abroad. The amendments enable the Trust to undertake, *inter alia*, direct lending, acquisition/sale of immovable property, leasing, bills rediscounting and merchant banking. The amendments also facilitate extension by the Trust of investment/fund/portfolio management services to non-resident Indians.

The Trust announced launching abroad, in association with Merrill Lynch, of a fund called the "India Fund" for mobilising foreign exchange resources. The shares of the Fund will be quoted on the London Stock Exchange and the resources mobilised by the Fund will be invested in a special unit scheme of the Trust.

The Trust also announced that it will introduce a Mutual Fund Scheme which, in course of time, will become its subsidiary. This would be a growth oriented scheme under which funds would be deployed in equities of corporate sector. The Mutual Fund would be listed on Indian Stock Exchanges.

Industrial Reconstruction Bank of India

The Industrial Reconstruction Bank of India (IRBI) is the principal all-India credit and reconstruction agency for industrial revival, assisting and promoting industrial development and rehabilitating industrial concerns. It also co-ordinates similar work of other institutions engaged in this field. Under the leadership of IRBI, an inter-institutional group considers various matters relating to evolution of policies as also individual cases of rehabilitation/reconstruction of sick industrial units.

Total assistance sanctioned and disbursed by IRBI during 1985-86 (April-March) amounted to Rs.76.1 crores and Rs.67.8 crores, respectively (Table IX-17). The bulk of the sanctioned amount (Rs.73.7 crores) was in the form of term loans. Term loans are provided to industrial units for essential capital expenditure towards modernisation, diversification, expansion and renovation, etc., bridging urgent liquidity gaps and providing margin for working capital.

Table IX-17: Financial Assistance Sanctioned and Disbursed by Industrial Reconstruction Bank of India

(Year April-March) (Rupees crores)

	Type of Assistance	1984-85		1985-86	
		Sanctioned	Disbursed	Sanctioned	Disbursed
	1	2	3	4	5
1.	Term Loan	105.9	52.6	73.7	64.3
		(105)		(63)	
2.	Textile Processing Corporation of India Ltd. (TPCI)	0.3	0.4	1.0	0.8
3.	Equipment leasing scheme	2.2	0.4	0.2	1.1
4.	Hire-purchase	0.9	0.2	0.2	0.3
5.	Lines of credit scheme for assisting sick small scale units through various state level agencies	1.5	1.2	1.0	1.3
	Total	**110.8**	**54.8**	**76.1**	**67.8**

Notes: 1. Figures are provisional.
2. Figures within brackets indicate number of fresh cases sanctioned during the year.

Source: Industrial Reconstruction Bank of India.

Out of the total assistance of Rs.73.7 crores sanctioned by way of term loans, projects in backward areas accounted for Rs.15.9 crores (22 per cent). The other forms of assistance provided by IRBI include assistance to the Textile Processing Corporation of India Ltd., equipment leasing, hire-purchase, and lines of credit for assisting sick small-scale units through various State level agencies and Union territory level institutions. During the year, under its lines of credit scheme, IRBI sanctioned Rs.1.0 crore and disbursed Rs.1.3 crores to sick small scale units whose individual requirements are less than Rs.10 lakhs.

IRBI also provided consultancy services to banks and financial institutions on a selective basis and merchant banking services for amalgamation/merger and reconstruction of industrial units.

Export-Import Bank of India

The Working Group consisting of Export-Import Bank of India (Exim Bank), Reserve Bank of India, ECGCI, Central Government and exporters' bankers approved during 1985, 216 export bids valued at Rs.4,040 crores for supply, construction, turnkey, and consultancy projects. The Working Group is an inter-institutional mechanism which functions under the auspices of Exim Bank and considers for approval export bids where value of a bid exceeds Rs.5 crores. Bids valued between Rs.2 crores and Rs.5 crores are cleared by Exim Bank and those valued upto Rs.2 crores are cleared by commercial banks. All projects for consultancy and technology services (regardless of value) are however, considered by the Working Group.

During 1985, Exim Bank made commitments-in-principle amounting to Rs.577.0 crores of funded assistance and Rs.363.0 crores of non-funded assistance for export bids and for enlarged scope of work on on-going projects. Commitments-in-principle indicate the extent of financial assistance committed by Exim Bank at the time of submission of bids, these commitments get converted into sanctions when bids materialise as contracts. During 1985, Exim Bank sanctioned financial assistance to 74 new projects for which in-principle commitments had been made by it in 1985 and earlier years, the value of such new export projects was estimated at Rs.412.0 crores, comprising construction projects of Rs.246.2 crores, turnkey projects of Rs.56.7 crores, supply contracts of Rs.76.3 crores and consultancy contracts of Rs.32.8 crores. The value of financial assistance sanctioned to new export projects during the year recorded a rise of 148 per cent compared with that in the previous year.

In addition to financial assistance for export projects that attract clearance by the Working Group, Exim Bank also extends financial assistance for Indian exports through lines of credit, relending facility, export bills rediscounting, overseas investment finance, facilities for deemed exports and financial assistance to hundred per cent export oriented units and units in free trade zones.

Exim Bank introduced a new lending programme during 1985 called the 'SSI Export Bills Rediscounting Programme' to support exports from small-scale industries. Under this lending programme, commercial banks can rediscount with Exim Bank eligible export bills of SSI exporters. Sanctions for this programme amounted to Rs.50 crores during the year.

During 1985, Exim Bank sanctioned Rs.441.2 crores under various programmes of funded assistance which shows a rise of 30 per cent over sanctions in 1984 (Table IX-18). A part of this funded assistance, viz., U.S. $ 16.7 million, was sanctioned under the Direct Financial Assistance Programme to project exporters to finance third country imports and to meet bridge finance needs. Foreign currency loans are utilised largely for construction, transmission line and telecommunication projects in West Asia, South-East Asia and North Africa. Utilisation of funded assistance at Rs.381.3 crores was higher by 8 per cent compared with that in 1984. Non-funded assistance in the form of guarantees, worth Rs.73.2 crores

was sanctioned and guarantees valued at Rs.68.3 crores were issued during the year. The outstanding amount at the end of December 1985 under funded and non-funded assistance stood at Rs.554.4 crores and Rs.466.1 crores, respectively, compared with Rs.414.7 crores and Rs.510.2 crores, respectively, at the end of December 1984.

Table IX-18: Operations of Export-Import Bank of India

(Rupees crores)

Lending Programmes	January-December 1984			January-December 1985		
	Sanctions	Utilisations	Outstandings	Sanctions	Utilisations	Outstandings
1	2	3	4	5	6	7
Funded Programmes	**338.6**	**353.0**	**414.7**	**441.2**	**381.3**	**554.4**
Buyer's Credit	16.4	34.6	59.7	—	3.4	61.7
Direct Financial Assistance	77.2	81.1	158.9	93.2	81.6	214.5
Export Bills Rediscounting	193.5	193.5	50.0	199.5	199.5	50.0
Export Credit Refinance	33.6	29.1	44.4	48.2	34.5	70.5
Finance for Export Oriented Units	0.6	—	—	6.3	0.6	0.6
Lines of Credit	5.0*	12.4	92.6	5.0	12.0	101.5
Overseas Investment Finance	0.9	0.7	8.2	0.4	0.3	6.7
Pre-shipment Credit	0.7	0.7	—	6.4	5.6	4.4
Relending Facility	10.7*	0.9	0.9	31.3	0.4	1.1
Small Scale Industry Export Bills Rediscounting	—	—	—	50.0	42.7	42.7
Other funded Programmes**	—	—	—	0.9	0.7	0.7
Non-funded Programmes* **	**57.2**	**57.4**** **	**510.2**	**73.2**	**68.3**** **	**466.1**

* In view of the new reporting practice introduced in 1985 under which preliminary commitments are treated as sanctions only when agreements are formally signed, the data on sanctions during 1984 have been suitably adjusted for the sake of comparability.

** Sanction and utilisation of an import loan for export purposes.

*** Non-funded assistance is given in the form of guarantees.

**** Guarantees issued.

Note: All sanctions, utilisations and outstanding amounts in foreign currency have been converted into rupees (in this and subsequent tables) using the exchange rate prevailing at the time of sanction or utilisation or at the end of the year (in the case of outstandings).

Source: Export-Import Bank of India.

Construction projects accounted for over half (54 per cent) of assistance sanctioned* under funded programmes. Major categories of capital and engineering goods industries which were sanctioned assistance included* railway rolling stock, commercial vehicles, transport equipment, textile machinery; earth moving equipment, diesel pumps and engines, bicycles and machine tools (Table IX-19). Industry-wise distribution of utilisations* reflected a picture similar to that of sanctions. Finance was also utilised for export of products and projects like commercial vehicles, transport equipment, textile machinery, earth moving machinery, power generation and distribution equipment, telecommunication systems, and cement plant machinery. Non-funded assistance was provided mainly for construction projects which accounted for 77 per cent of sanctions. Other major beneficiaries of non-funded assistance were power generation and distribution projects, and consultancy services.

* In the industry-wise and region-wise analysis, relending facility is excluded from sanctions and export bills rediscounting is excluded from sanctions and utilisations; financial assistance to 100 per cent export oriented units and units located in free trade zones is excluded; besides, in the industry-wise analysis lines of credit are excluded from sanctions because of conceptual and data-related reasons.

Table IX-19: Operations of Exim Bank — Industry-wise *
(January-December 1985)

(Rupees crores)

Lending Programmes	Railway Rolling Stock		Earth moving Machinery		Construction goods and services		Power generation and distribution equipment		Diesel Engines and Pumps		Textile Machinery		Vehicles and Transport Equipment		Others**	
	S	U	S	U	S	U	S	U	S	U	S	U	S	U	S	U
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Funded Programmes	**12.95**	**—**	**6.29**	**8.19**	**82.84**	**69.37**	**1.13**	**4.80**	**7.35**	**2.53**	**5.87**	**12.93**	**11.73**	**15.04**	**27.16$**	**26.21$**
Buyer's Credit	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3.39
Direct Financial Assistance	12.63	—	4.34	3.56	56.15	47.94	0.95	4.19	4.05	1.87	5.11	7.03	4.75	9.85	5.23	7.09
Export Credit Refinance	0.32	—	—	—	26.69	21.43	—	0.15	3.30	0.63	0.76	1.50	6.98	3.27	10.13	7.55
Finance for Export Oriented Units	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6.29	0.64
Lines of Credit	—	—	—	0.18	—	—	—	0.46	—	0.03	—	4.40	—	1.92	—	5.02
Overseas Investment Finance	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.37	0.30
Pre-shipment credit	—	—	1.95	4.45	—	—	0.18	—	—	—	—	—	—	—	4.26	1.10
Relending facility	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	0.41
Non-funded Programmes	**—**	**—**	**—**	**—**	**56.19**	**57.05‡**	**0.83**	**2.36‡**	**—**	**—**	**—**	**—**	**—**	**—**	**16.18**	**8.85‡**

S–Sanctions U–Utilisations ‡ Guarantees issued

* Industrial distribution of sanctions and utilisations under Export Bills Rediscounting and sanctions under Lines of Credit and Relending Facility are excluded because of conceptual and data related reasons.

** Others include machinery for steel and rubber products, electronic components, ceramic plant, steel pipes, coin manufacturing machinery, cement plant machinery, communication, bicycle parts, tea machinery, water and sewerage treatment plant, machine tools, consultancy services, pharmaceuticals and miscellaneous industrial machinery exports.

$ Includes Rs.8.8 million sanctioned and Rs.7.1 million utilised for an import of equipment dedicated for production export.

Source: Export-Import Bank of India.

Region-wise, the largest share of funded assistance sanctioned* by Exim Bank was accounted for by exports to West Asia (67 per cent), followed by Africa (23 per cent), Americas (5 per cent), South-East Asia (4 per cent) and South Asia (1 per cent) (Table IX-20). The largest share of utilisation of funded assistance was also accounted for by exports to West Asia (60 per cent), followed by Africa (23 per cent), South Asia (8 per cent), South-East Asia (7 per cent), and Americas (2 per cent). The bulk (81 per cent) of non-funded assistance was sanctioned for projects in West Asia.

State Financial Corporations

State Financial Corporations (SFCs) provide financial assistance to small and medium scale industries by way of term loans, underwriting of share issues and guaranteeing loans/deferred payments of industrial concerns.

There are at present 18 SFCs (including Tamil Nadu Industrial Investment Corporation Ltd.) of which five have jurisdiction over neighbouring States/Union territories which have not set up separate SFCs in their regions.

Aggregate assistance sanctioned by SFCs rose from Rs.743.1 crores in 1984-85 to Rs.1,008.8 crores in 1985-86 recording a rise of 35.8 per cent (Table IX-21). Assistance disbursed by SFCs in 1985-86 at Rs.607.3 crores was higher by 22.0 per cent compared with that in the preceding year. Outstanding loans of SFCs at the end of March 1986 stood at Rs.2,544.9 crores. Out of 18 SFCs, 13 recorded rise in both sanctions as well as disbursements during the year.

Assistance sanctioned by SFCs during 1985-86 to backward areas aggregated Rs.532.9 crores. Assistance sanctioned to the small-scale industry (including small road transport operators) amounted to Rs.830.8 crores.

Housing and Urban Development Corporation Ltd.

The Housing and Urban Development Corporation Ltd. (HUDCO), a fully owned Government of India company, was set up in 1970 to finance housing and urban development activities particularly for the poorer sections of the society. HUDCO finances a variety of schemes formulated by State Housing Boards, development authorities, municipal corporations, improvement trusts, public undertakings, state apex housing finance societies, co-operatives, etc., in the urban and rural areas. With effect from December 23, 1985 HUDCO loans for its various schemes carry differential rates of interest varying from 4 per cent to 15 per cent per annum. HUDCO prescribes a longer repayment period for the poorer section keeping in view repayment capacity. The maximum repayment period of 22 years is allowed for economically weaker sections while the minimum repayment period of 10 years has been prescribed for rental housing schemes.

During 1985-86 (April-March), HUDCO sanctioned loans of Rs.387.4 crores and disbursed loans of Rs.222.5 crores; the corresponding figures for 1984-85 were Rs.352.9 crores and Rs.199.8 crores, respectively. Upto March 1986, HUDCO had sanctioned schemes with project cost of Rs.3,194 crores, its own loan commitment being Rs.2,076 crores, for construction of 2.31 million dwelling units in 21 States and five Union Territories; over 80 per cent of these dwelling units are meant for the poorer strata of the society.

During 1985-86 HUDCO introduced some new schemes which included: (i) scheme to enable borrowing agencies to construct houses for almost all income categories in rural areas; (ii) scheme to grant construction loans to promote construction of houses by beneficiaries themselves through established housing agencies; (iii) scheme for grant of loans for repairs and renewal of old and dilapidated buildings to preserve the existing housing stock; (iv) scheme to finance land acquisition by the

Table IX-20: Operations of Exim Bank — Region-wise
(January-December 1985)

(Rupees crores)

Lending Programmes	West Asia		Africa*		Americas		South East Asia/ Far East & Pacific		South Asia		Europe	
	S	U	S	U	S	U	S	U	S	U	S	U
1	2	3	4	5	6	7	8	9	10	11	12	13
Funded Programmes	**98.75**	**78.90**	**33.45**	**30.02**	**7.05**	**3.69**	**6.48**	**8.96**	**1.29**	**10.60**	—	—
Buyer's Credit	—	—	—	—	—	—	—	3.39	—	—	—	—
Direct Financial Assistance	65.49	53.03	21.10	22.20	—	2.00	6.06	3.48	0.56	0.82	—	—
Export Credit Refinance	33.26	25.46	12.14	3.53	2.05	1.69	—	2.09	0.73	1.76	—	—
Lines of Credit	—	—	—	4.29	5.00	—	—	—	—	7.72	—	—
Overseas Investment Finance	—	—	0.21	—	—	—	0.16	—	—	0.30	—	—
Pre-shipment Credit	—	—	—	—	—	—	0.26	—	—	—	—	—
Relending Facility	—	0.41	—	—	—	—	—	—	—	—	—	—
Non-funded Programmes	**58.76**	**61.71 $**	**10.70**	**2.32 $**	—	—	**1.51**	**2.21 $**	**1.62**	**1.98 $**	**0.04**	**0.04 $**

S = Sanctions U = Utilisations

* Includes North Africa and Sub-Saharan Africa.

$ Guarantees issued.

Note: Guarantee sanctions exclude (Rs.0.57 crore) for export oriented units. Because of conceptual and data-related reasons, this table does not include regional distribution of sanctions and utilisations under Export Bills Rediscounting, Finance for Export Oriented Units and sanctions under Relending Facility.

Source: Export-Import Bank of India.

Table IX-21: Operations of State Financial Corporations

(April-March) (Rupees crores)

	1984-85*	1985-86*
Assistance sanctioned	743.1	1,008.8
Assistance disbursed	497.7	607.3
Loans outstanding as at the end of March	1,824.2	2,544.9

* Provisional.

Source: Industrial Development Bank of India.

Housing Boards and development authorities under which loans upto 100 per cent of total cost of land are available.

HUDCO has established the Human Settlement Management Institute to facilitate training support to personnel of HUDCO's borrowing organisations and a forum of professional interaction for administrators and others involved in the field of housing and urban development. This institute is also handling training activities of the Indian Human Settlements Programme under an Indo-Dutch Agreement, which focuses on systematic development of training courses for mid-career, middle management level, professionals engaged in shelter, environmental improvement and community development activities for low income groups.

Housing Development Finance Corporation Ltd.

The Housing Development Finance Corporation Ltd. (HDFC), a private sector company, provides financial assistance to individuals, cooperative societies and companies for new residential housing.

During 1985-86 (April-March), HDFC sanctioned total housing loans of Rs.179.4 crores for over 36,800 units and disbursed a sum of Rs.125.6 crores. HDFC's sanctions and disbursements recorded a rise of 43 per cent and 37 per cent, respectively, over the preceding year. During the year, HDFC sanctioned loans for dwelling units in 100 additional towns, raising the total number of towns and cities covered by it to 455. There was no change in the lending rates charged by HDFC during 1985-86 (April-March). HDFC's cumulative sanctions as at the end of March 1986 aggregated Rs.558.9 crores in respect of over 1,38,900 units while cumulative disbursements as on that date amounted to Rs.377.4 crores.

HDFC raised during the year a sum of Rs.17.3 crores by way of term loans from commercial banks under the Reserve Bank guidelines, besides mobilising deposits of Rs.67.9 crores through its various deposit schemes. In May 1985, HDFC launched a new Home Savings Plan which is an adaptation of the German Bausparkasse — type system, whereby an individual borrower can avail housing loan at 8.5 per cent per annum — a much lower rate of interest than that prevailing on normal housing loans provided the borrower completes certain savings requirements beforehand. This savings plan, first launched in Bombay and later extended to Pune and Delhi, is expected to help mobilise savings specifically for the housing sector. The outstanding amount of term-loans and deposits raised by HDFC as at the end of March 1986 stood at Rs.124.0 crores and Rs.213.3 crores, respectively.

During the year HDFC completed the first phase of the borrowing programme of US $ 20 million in the US capital market under the Housing Guaranty Program of the United States Agency for International Development. HDFC entered into a swap arrangement with IDBI wherein HDFC handed over the funds so raised to IDBI and under a back to back arrangement HDFC was sanctioned a term loan of Rs.24 crores.

Chapter X

Developments in India's Foreign Trade

1. TRENDS IN INDIA'S FOREIGN TRADE DURING 1985-86

India's foreign trade (imports and exports taken together) recorded a deceleration in 1985-86 after it had expanded significantly during 1984-85. According to the provisional data released by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), India's merchandise trade deficit has reached a new peak of Rs.7,951 crores during 1985-86 (Table X-1). At this level, the deficit was higher by 53.3 per cent over that of Rs.5,188 crores during 1984-85; between 1980-81 and 1984-85 the deficit had fluctuated between Rs.5,200 crores and Rs.5,900 crores. The decline of 7.8 per cent in exports in 1985-86 and a rise of 11.4 per cent in imports caused the marked deterioration in trade balance. In terms of SDRs during 1985-86 exports were down by 14.8 per cent but imports were higher by 2.9 per cent than in 1984-85.

Table X-1: India's Trade Balance

(Rupees crores)

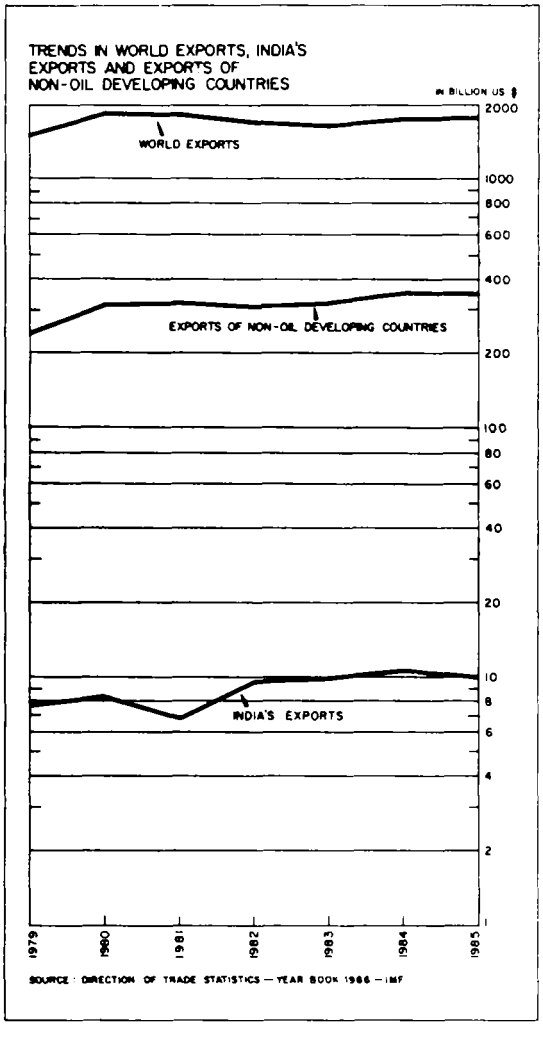
	Imports	Exports	Balance
1985-86 P	18,371 (+11.4)	10,420 (−7.8)	-7,951
1984-85 P	16,485 (+7.4)	11,297 (+20.2)	-5,188
1983-84 P	15,347	9,396	−5,951
1984-85 PR	17,173 (+8.9)	11,855 (+20.1)	-5,318
1983-84 PR	15,763	9,872	-5,891

P - Provisional
PR - Partially Revised.
Note: Figures in brackets indicate percentage variations over the preceding year.
Source: D.G.C.I. & S.

Exports

India's export performance has to be viewed against the background of international developments. The world economic growth slowed down to 2.9 per cent in 1985 after staging a marked recovery of 4.4 per cent in 1984. The output growth in industrial countries which provide markets for exports from developing countries declined to 2.7 per cent from 4.7 per cent in 1984. Among the industrial countries, the slow down in economic growth in the U.S.A., which absorbs substantial imports from developed and developing countries, was steeper at 2.2 per cent from 6.5 per cent. The sluggishness in the world output affected adversely the growth in the volume of world exports which came down to only 3.9 per cent in 1985 as compared with 9.3 per cent achieved in 1984. In the case of developing countries, the growth in non-fuel exports, fell to 3.4 per cent from 11.7 per cent in 1984. The plight of developing countries was further compounded by a steep decline of 12.2 per cent in the prices of non-fuel primary commodities in U.S. dollar terms in 1985. As a result, the export unit value

for non-fuel exporting developing countries declined by 3.3 per cent in 1985 as compared with a rise of 0.5 per cent in 1984.



The slow down in output and continuance of high unemployment rate in industrial countries intensified the protectionist tendencies in this group. Consequently, the volume of imports of industrial countries grew only by 5.2 per cent as compared with a rise of 13.0 per cent in 1984. The decline in oil prices forced oil exporting countries to further curtail their imports.

The other significant factor which caused the setback to India's total exports in 1985-86 was a sharp decline in crude oil exports. During the year 1985-86, exports of crude oil amounted to Rs.135 crores only as compared with Rs.1,563 crores in 1984-85. In fact, with the augmentation of domestic refining capacities, India has stopped the exports of crude oil after April 1985. The non-oil exports recorded a rise of 5.7 per cent, though growth of this group was significantly lower than the expansion of 17.5 per cent achieved in 1984-85. In SDR terms, the non-oil exports recorded a decline of 2.4 per cent in 1985-86 as against a rise of 7.7 per cent in the last year.

Details of exports of non-oil commodities are set out in Table X-2. Data for 1985-86 are provisional and are therefore, subject to revision, at times, considerably. It would be worthwhile to observe that significant increases were recorded in exports of pearls and precious and semi-precious stones (unworked or worked), garments, iron ore, cashew kernels, rice, etc. These were offset by marked declines in exports of tea and mate, chemicals and allied products, jute manufactures, cotton fabrics, tobacco unmanufactured etc.

Data on the quantity of exports are available in respect of 13 of the items enumerated in Table X-2. Of these, during 1985-86, the export volume of iron ore, fish and fish preparations, coffee and coffee substitutes, cashew kernels and rice increased while that of cotton fabrics, sugar and sugar preparations, unmanufactured tobacco and tobacco refuse and oil cakes declined.

Export performances of major items are reviewed below.

Amongst handicrafts, exports of *pearls, precious and semi-precious stones* registered a sharp increase of 13.4 per cent to Rs.1,355 crores during the year 1985-86 as compared with that of Rs.1,195 crores in 1984-85. Exports of jewellery at Rs.63 crores were marginally lower by Rs.4 crores than that in the previous year. In order to meet the needs of export production, the gems and jewellery sector has been provided certain facilities in the matter of

Table X-2: India's Exports of Principal Commodities

(Value in Rupees crores)

Sr. No.	Commodities	Unit of Quantity	1983-84 (Partially revised)		1984-85 (Partially revised)		Increase(+)/ Decrease(−)	1985-86 (Provisional)		Increase(+)/ Decrease(−)	
			Quantity	Value	Quantity	Value	Absolute (6 over 4)	Quantity	Value	Absolute	Percentage (9 over 6)
	1	2	3	4	5	6	7	8	9	10	11
1.	Handicrafts										
	(a) Pearls, precious & semi-precious stones etc. unworked or worked	Value	—	1214	—	1195	−19	—	1355	+160	+13.4
	(b) Works of art	Value	—	117	–	135	+18	—	121	−14	−10.4
	(c) Carpets handmade	Value	—	194	—	227	+33	–	226	−1	−0.4
	(d) Jewellery	Value	—	75	—	67	−8	—	63	−4	−6.0
2.	Tea & mate	Million kgs.	197.5	501	216.2	708	+207	213.8	611	−97	−13.7
3.	Machinery including transport equipments	Value	—	497	—	555	+58	—	594	+39	+7.0
4.	Readymade garments	Value	—	610	—	858	+248	—	983	+125	+14.6
5.	Iron ore	Million tonnes	21.2	385	90.3	447	+62	27.0	555	+108	+24.2
6.	Fish crustaceans & molluses & preparations thereof	'000 tonnes	81.8	327	23.5	336	+9	93.4	388	+52	+15.5
7.	Leather & leather manufactures (expect footwear)	Value	—	350	—	425	+75	—	482	+57	+13.4
8.	Cotton fabrics	Million sq. mts.	305.0	277	438.9	413	+136	338.5	369	−44	−10.7
9.	Chemicals & allied products	Value	—	278	—	371	+93	—	284	−87	−23.5
10.	Coffee & coffee substitutes	Million kgs.	73.5	183	67.8	198	+15	84.2	235	+37	+18.7
11.	Metal manufactures except iron and steel	Value	—	194	—	183	−11	—	155	−28	−15.3
12.	Jute manufactures including twist & yarn	Lakh tonnes	3.0	165	2.9	341	+176	2.5	270	−71	−20.8
13.	Cotton raw	'000 tonnes	124.8	149	30.4	57	−92	32.4	66	+9	+15.8
14.	Cashew kernels	'000 tonnes	39.6	157	32.0	174	+17	37.5	215	+41	+23.6
15.	Tobacco unmanufactured and tobacco refuse	'000 tonnes	75.8	150	75.8	149	−1	53.7	115	−34	−22.8
16.	Sugar & sugar preparations	'000 tonnes	240.0	140	106.3	22	−118	17.8	10	−12	−54.5
17.	Vegetables and fruits excluding cashew kernels	Value	—	155	—	162	+7	—	164	+2	+1.2
18.	Mineral fuel, lubricants & related products (including the exports of Bombay High Crude)	Value	—	1588	—	1818	+230	—	643	−1175	−64.6
19.	Oil cakes	'000 tonnes	952.3	146	802.6	133	−13	657.9	122	−11	−8.3
20.	Crude vegetable materials	Value	—	97	—	136	+39	—	112	−24	−17.6
21.	Spices	'000 tonnes	86.0	109	90.5	174	+65	84.1	255	+81	+46.6
22.	Made-up articles, wholly or chiefly of cotton n.e.s.	Value	—	76	—	92	+16	—	102	+10	+10.9
23.	Rice	'000 tonnes	246.0	147	180.6	122	−25	244.9	193	+71	+58.2
24.	Meat & meat preparations	Value	—	68	—	76	+ 8	—	72	−4	−5.3
25.	Iron & steel	Value	—	46	—	62	+16	—	46	−16	−25.8
26.	Rubber & rubber manufactures	Value	—	42	—	71	+29	—	41	−30	−42.3
27.	Silk fabrics	Value	—	41	—	48	+7	—	41	−7	−14.6
	A. Total of above items			**8478**		**9755**	**+1277**		**8888**	**−867**	**−8.9**
	B. Others		—	**1394**		**1902**	**+508**		**1532**	**−370**	**−19.5**
	C. Grand Total		—	**9872**		**11657** *	**+1785**		**10420**	**−1237**	**−10.6**

* Further revised to Rs.11855 crores according to March 1986 DGCI&S press note.

Sources: (a) For the years 1983-84 and 1984-85, Annual Report of Ministry of Commerce, 1985-86.
(b) For the year 1985-86, Foreign Trade Statistics of India, March 1986, DGCI&S.

procurement of raw materials like import of semi-precious stones in tumbled/broken/sliced/damaged forms. Other promotional measures taken include import duty reduction on several machines/equipments/tools required by this sector for improving efficiency and productivity. The Gold Jewellery Export Promotion and Replenishment Scheme has been modified to remove some of the constraints pointed out by the trade to ensure replenishment of gold at international prices against exports of gold jewellery.

In respect of *readymade garments*, which is a dynamic export item with considerable growth potential, exports improved substantially by 14.6 per cent to Rs.983 crores during 1985-86 as compared with Rs.858 crores during 1984-85.

Exports of *iron ore* was the other item which showed significant improvement in volume, value and unit value realisation. Exports of iron ore increased to 27.0 million tonnes valued at Rs.555 crores in 1985-86 recording a rise of 14.9 per cent and 24.2 per cent in terms of volume and value, respectively, from 23.5 million tonnes valued at Rs.447 crores during 1984-85. The unit value realisation increased by 8.0 per cent over the year. Japan continued to be the largest market for Indian iron ore. Last year, the MMTC concluded a long-term contract with Japan for exports of 30 million tonnes of iron ore worth around $ 600 millions to be supplied over a period of 10 years.

As regards *fish and fish preparations*, exports during 1985-86 amounted to 93.4 thousand tonnes valued at Rs.388 crores as against 90.3 thousand tonnes valued at Rs.336 crores in the previous year. An increase of about 3 per cent in volume accompanied by 1.6 per cent rise in unit value realisation helped achieve 15.5 per cent growth in export value. The demand for fresh and frozen shrimp was reported to be good both from Japan and the USA.

Exports of *coffee and coffee substitutes* increased to Rs.235 crores from Rs.198 crores recording a rise of 18.7 per cent during the year under review entirely due to volume growth of 24.2 per cent. The unit value realisation, in fact, declined by about 4.5 per cent even in rupee terms.

Exports of *cashew kernels* were up by 23.6 per cent to Rs.215 crores, mostly due to a strong volume growth. The unit value realisation improved marginally by 5.4 per cent.

There was a rise of 1.2 per cent to Rs.164 crores in exports of *vegetables and fruits (excluding cashew kernels)* during the year.

Exports of *rice* recorded a substantial improvement during the year under review. The quantity exported increased by 35.6 per cent to 244.9 thousand tonnes in 1985-86. In value terms, exports increased by 58.2 per cent to Rs.193 crores, reflecting improvement of 16.7 per cent in the unit value realisation during this period.

Exports of *leather and leather manufactures (excluding footwear)*, which had displayed a rising trend during the last two years, recorded a further rise of Rs.57 crores to Rs.482 crores during 1985-86 as compared with Rs.425 crores in 1984-85. With a view to promoting exports of value added leather products, various steps were taken to facilitate an easy access to essential inputs to generate exportable surplus and upgrade the quality of export products.

After recording a substantial rise in the last two years, exports of *tea and mate*, declined by 13.7 per cent to Rs.611 crores during the year 1985-86 as compared with Rs.708 crores in the previous year. The unit value realisation in rupee terms declined by about 12.5 per cent to Rs.28.6 per kg. in 1985-86 from Rs.32.7 per kg. in 1984-85. In London tea auctions, the average tea price in pound sterling for Indian teas declined by 30.8 per cent during 1985. The Government took several measures to promote tea exports. The stipulation of Minimum Export Price (MEP) which had been imposed in 1984 was withdrawn. The Government also removed the restrictions on exports of CTC tea which were also imposed in 1984. A strategy to promote exports of tea in value-added form like

packet tea, instant tea etc. which fetch higher price than the bulk teas was pursued. Similarly, it was decided to rely more on superior quality teas for which the demand is good. In order to increase the share of these items in total exports, the Government took various measures like higher Cash Compensatory Support (CCS), assistance for brand promotion and warehousing abroad. Thus, despite a slack demand for teas in international markets, India was able to export 213.8 million kgs. of tea during 1985-86 which in terms of volume was only marginally lower by 3 million kg. than that of 216.2 million kg. exported in 1984-85. The comfortable supply position in domestic markets, due to higher tea production, also helped in maintaining exports.

There was a setback in exports of *engineering goods* during the year under review. According to data released by the Engineering Export Promotion Council, exports of engineering goods during April-February of 1985-86 at Rs.935 crores showed a decline of 8.4 per cent from those of Rs.1,020 crores achieved in the period April-February of 1984-85. The shortfall was observed under all categories of exports viz., capital goods, primary steel and pig iron based items, non-ferrous product and consumer items. According to the DGCI&S data, exports of *machinery and transport equipments* during 1985-86 amounted to Rs.594 crores and showed a rise of 7.0 per cent over the last year. On the other hand, exports of *metal manufactures* except iron and steel declined to Rs.155 crores during this period from Rs.183 crores. A series of measures have been taken by the Government for promoting exports of engineering goods. These measures include policies designed to generate new capacities and promotion of technological upgradation and import flexibility with a view to increasing the international competitiveness of domestic industry. Apart from the decision to extend the Cash Compensatory Support Scheme beyond March 31, 1986 for a period of three years and provision of compensation to industry for the cascading effect of domestic taxes, alloys and other types of steel have been included in the International Price Reimbursement Scheme to provide steel materials at international price for export production. The Import-Export Pass Book Scheme has been introduced for manufacturers, exporters with a view to provide access to duty free imports for export production.

Exports of *cotton fabrics* declined by 22.9 per cent in volume to 338.5 million sq. mts. valued at Rs.369 crores, registering a fall of 10.7 per cent in value. The decline in quantity was partly offset by a rise of 15.8 per cent in unit value realisation.

Chemicals and allied products have been a promising line for exports since several years. During the period under review, however, their exports declined by 23.5 per cent to Rs.284 crores.

Exports of *jute manufactures including twist and yarn* at Rs.270 crores during 1985-86 showed a decline of Rs.71 crores from those in the corresponding period of last year. The Government have taken various steps to boost exports of jute manufactures which, *inter alia*, include: (1) provision of higher cash compensatory support to jute carpet backing cloth and yarn on the basis of matching performance by the industry; (2) formation of STC — Jute industry consortium on 50:50 loss sharing basis for export of carpet backing cloth to North America; (3) encouragement to develop exportable products through R & D efforts; and (4) constitution of a new JMDC and jute fund out of proceeds of jute cess to give boost to R & D efforts and export promotion.

Exports of *unmanufactured tobacco and tobacco refuse* declined in both volume as well as value. The volume of tobacco exports contracted by about 29.2 per cent to 53.7 thousand tonnes in 1985-86. In value terms, exports declined by 22.8 per cent. This relatively smaller decline in value of exports was due to 8.2 per cent improvement in unit value realisation during the period under review. The decline in exports was observed in respect of the U.K. market which is the second largest market for Indian tobacco after the USSR. The sharp de-

cline in the off-take of Indian unmanufactured tobacco in the U.K. markets was largely caused by severe price competition from some African countries.

As regards *sugar and sugar preparations*, exports declined further due to low domestic production. Exports of sugar stood at 17.8 thousand tonnes valued at Rs.10 crores as against 106.3 thousand tonnes valued at Rs.22 crores in the last year.

Exports of *spices*, which had recorded a considerable increase in the previous two years, showed further improvement during 1985-86. Exports of spices during 1985-86 at 84.1 thousand tonnes were lower by 7.1 per cent than those during the previous year. The decline in volume of exports was, however, to a large extent compensated by an increase of 57.7 per cent in unit value realisation. As a result, in value terms, the exports of spices recorded a substantial rise of 46.6 per cent.

Imports

Total imports at Rs.18,371 crores during 1985-86, according to the provisional data, registered an increase of Rs.1,198 crores over the level of Rs.17,173 crores in 1984-85 (Table X-3); this increase occurred despite substantial declines in the imports of petroleum, petroleum products and related materials, edible oils and organic and inorganic chemicals which generally account for larger part of the imports.

During 1984-85, total imports increased by Rs.1,410 crores or 8.9 per cent to Rs.17,173 crores (partially revised data) from Rs.15,763 crores in 1983-84. The increase was mainly attributed to larger imports of fertilisers, petroleum products, edible oils and chemicals. The rise was partly offset by decline in imports of wheat, capital goods and iron and steel.

The data on commodity-wise imports for 1985-86 which are available on a provisional basis, indicate that the largest increase in imports was under 'machinery and transport equipment' (Rs.714 crores), followed by iron and steel (Rs.262 crores), metalliferous ores and metal scrap (Rs.149 crores), professional, scientific instruments etc. (Rs.80 crores) and pearls, precious and semi-precious stones (Rs.72 crores) and sugar*. Imports of petroleum, petroleum products and related material declined by Rs.418 crores during 1985-86 and their share in total imports was lower at 27 per cent in 1985-86 than 31.5 per cent in 1984-85 in view of marked decline in crude oil prices since November 1985.

Trends in imports of selected commodities are discussed below:

Imports of *petroleum, petroleum products and related materials*, have for the first time in recent years, shown a decline in 1985-86. Their imports at Rs.4,964 crores were lower by 7.8 per cent than those in 1984-85, though in terms of quantity, they were only marginally lower. The unit value in rupee terms recorded a fall of 6.8 per cent from that in 1984-85. Despite the decline in crude exports, imports of POL products had to be generally maintained in terms of quantity in the face of rising demand and slowing down in the growth of indigenous crude production.

In respect of *machinery and transport equipment*, imports spurted by 27.3 per cent in 1985-86 and amounted to Rs.3,331 crores as against Rs.2,617 crores in 1984-85. The higher imports of the items under this group reflected liberalisation of import policy as well as the buoyancy in industrial sector in view of good agricultural seasons in the previous two years. The share of this group in total imports rose to 18.1 per cent in 1985-86 from 15.3 per cent in the preceding year.

Imports of *manufactured fertilisers* for the year 1985-86 registered a marginal rise of only

* According to the Performance Review for 1985-86 of the State Trading Corporation, sugar imports are estimated at 20 lakh tonnes valued at Rs.743 crores in 1985-86, showing an increase of Rs.599 crores over the imports of Rs.144 crores in 1984-85.

Table X-3: India's Principal Imports

(Value in Rupees crores)

Sr. No.	Commodities	Unit of Quantity	1983-84 (Partially revised)		1984-85 (Partially revised)		Increase(+)/ Decrease(−) in 1984-85 over 1983-84(in value)		1985-86 (Provisional)		Increase(+)/ Decrease(−) in 1985-86 over 1984-85(in value)	
			Quantity	Value	Quantity	Value	Absolute	Percentage	Quantity	Value	Absolute	Percentage
	1	2	3	4	5	6	7	8	9	10	11	12
1.	Petroleum, Petroleum products and related materials	Million Tonnes	20.3	4830	19.0	5382	+552	+11.4	18.8	4964	−418	−7.8
2.	Machinery and transport equipment	Value	—	2834	—	2617	−217	−7.7	—	3331	+71.4	+27.3
3.	Iron and steel	000' T	2195.7	963	1548.0	777	−186	−19.3	1660.0	1039	+262	+33.7
4.	Pearls, precious and semi-precious stones	Value	—	1082	—	1028	−54	−5.0	—	1100	+72	+7.0
5.	Cereals and cereal preparations	000' T	2531.5	612	664.3	170	−442	72.2	218.7	84	−86	−50.6
	Of which: a) Wheat	000' T	2142.3	507	449.2	107	−400	−78.9	123.9	46	−61	−57.0
	b) Rice	-do-	328.1	80	188.4	51	−29	−36.3	25.7	8	−43	−84.3
6.	Organic and inorganic chemicals	Value	—	610	—	769	+159	+26.1	—	700	−69	−9.0
7.	Vegetable oils, fixed (edible oils)	000' T	1001.3	541	1179.6	830	+289	+53.4	903.1	614	−216	−26.0
8.	Non-ferrous metals	Value	—	369	—	345	−24	−6.5	—	388	+43	+12.5
9.	Professional, scientific, controlling instruments, photographic, optical goods	-do-	—	281	—	240	−41	−14.6	—	320	+80	+33.3
10.	Paper, paperboards and manufactures thereof	000' T	243.5	173	236.4	175	+2	+12	208.4	187	+12	+6.9
11.	Artificial resins, plastic materials etc.	Value	—	189	—	182	−7	−3.7	—	209	+27	+14.8
12.	Manufacture of metals	-do-	—	148	—	130	−18	−12.2	—	178	+48	+36.9
13.	Metalliferous ores and metal scrap,etc.	-do-	—	145	—	113	−32	−22.1	—	262	+149	+131.9
14.	Textile yarn, fabrics and made up articles, etc.	-do-	—	125	—	90	−35	−28.0	—	102	+12	+13.3
15.	Medicinal and pharmaceutical products	-do-	—	132	—	129	−2	−2.3	—	134	+5	+3.9
16.	Non-metallic mineral manufactures	-do-	—	175	—	131	−44	−25.1	—	64	−67	−51.1
17.	Chemical materials and products	-do-	—	123	—	112	−11	−8.9	—	103	−9	−8.0
18.	Synthetic and regenerated fibre	000' T	67.3	103	30.2	49	−54	−52.4	20.8	32	−17	−34.7
19.	Fertilizer, crude	-do-	952.4	81	1263.3	111	+30	+37.0	1490.8	120	+9	+8.1
20.	Fertilizer, manufactured	-do-	718.8	112	3303.0	751	+639	+570.5	3376.7	758	+7	+0.9
21.	Crude rubber (incl. synthetic and reclaimed)	-do-	69.0	81	51.1	71	−10	−12.3	57.3	69	−2	−2.8
	A. Total of the above items			**13708**		**14202**	**+494**	**+3.6**		**14758**	**+556**	**+3.9**
	B. Others			**2055**		**2890**	**+835**	**+40.6**		**3613**	**+723**	**+25.0**
	C. Grand Total			**15763**		**17092=**	**+1329**	**+8.4**		**18371**	**+1279**	**+7.5**

= Further revised to Rs.17173 crores according to March 1986 Press Note, DGCI & S.

Source: 1. For the years 1983-84 and 1984-85. Annual Report, 1985-86, Ministry of Commerce.
2. For the year 1985-86. Foreign Trade Statistics of India, March 1986, D.G.C.I. & S.

Rs.7 crores or 0.9 per cent as against a substantial increase of Rs.639 crores or over 570 per cent in the previous year. The quantity imported stood at 34 lakh tonnes in 1985-86 as compared with 33 lakh tonnes in 1984-85. The unit value of imported manufactured fertilizers slided by 1.3 per cent in 1985-86 as against a spurt of 46 per cent in 1984-85.

Imports of *edible oils* during 1985-86 stood at 903.1 thousand tonnes valued at Rs.614 crores and were lower both in terms of quantity and value as compared with those in 1984-85. The relative share of this item in total imports moved down to 3.3 per cent in 1985-86 from 4.9 per cent in 1984-85. Imports of edible oils were made partly to supplement the domestic production which was lower and partly to hold the rise in prices of edible oils. The oil-seeds crop was badly affected by drought notably in Gujarat, Maharashtra and Karnataka. The total production of oilseeds for the year 1985-86 estimated at 112 lakh tonnes is much lower than the production of 131 lakh tonnes in 1984-85.

The declining trend in the imports of *iron and steel* observed in the last three years was reversed in 1985-86 with their imports at Rs.1,039 crores increasing by Rs.262 crores or 33.7 per cent over those in 1984-85. Buoyancy in industrial sector prompted a rise in their imports. The rise in unit value of imports of iron and steel items has also influenced the increased import bill.

Imports of *pearls, precious and semi-precious stones* increased by Rs.72 crores or 7.0 per cent to Rs.1,100 crores in 1985-86 from Rs.1,028 crores in 1984-85. The larger imports reflected continued demand for exports of processed diamond jewellery abroad. The export performance of this sector was distinctly better.

A mixed trend was observed in respect of imports of *organic and inorganic chemicals* comprising of chemical materials and products and medicinal and pharmaceutical products. Imports of organic and inorganic chemicals registered a fall of Rs.69 crores to Rs.700 crores in 1985-86, as against an increase of Rs.159 crores to Rs.769 crores in 1984-85. On the other hand, imports of medicinal and pharmaceutical products rose by Rs.5 crores to Rs.134 crores over the year and those of chemical elements and products were lower by Rs.9 crores.

Imports of *metalliferous ores and metal scrap* showed a substantial rise of Rs.149 crores to Rs.262 crores in 1985-86 as against a decline of Rs.32 crores to Rs.113 crores in 1984-85.

Reflecting the improved domestic production of foodgrains, imports of *cereals and cereal preparations* during 1985-86 declined by Rs.86 crores or by 50.6 per cent to Rs.84 crores as compared with their imports of Rs.170 crores in the previous year. International prices of wheat which had moved up by only 0.6 per cent in 1984-85 over 1983-84 recorded a rise of 55.9 per cent in the year which affected the import bill under 'cereals and cereal preparations'.

Direction of Foreign Trade

Data on direction of India's foreign trade for the years 1983-84, 1984-85 and 1985-86 are presented in Table X-4. As compared with the data presented in the last year's Report, exports for the year 1983-84 have been revised up by Rs.7 crores to Rs.9,872 crores and for the year 1984-85, exports have been revised upwards by Rs.459 crores to Rs.11,855 crores and imports by Rs.581 crores to Rs.17,173 crores. Of these, country-wise details of revisions of exports and imports are available to the extent of Rs.261 crores and Rs.500 crores only. It may be mentioned here that the unclassified group includes exports/imports for which country-wise details are not available. This group also includes data on exports of crude petroleum and/or petroleum products of Rs.1,231 crores for 1983-84, Rs.1,670 crores in 1984-85 and Rs.135 crores for 1985-86.

Table X-4: Regional Pattern of India's Trade

(Rupees crores)

Regions	1983-84 (PR)			1984-85 (PR)			1985-86 (P)		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1	2	3	4	5	6	7	8	9	10
North America	1487	2133	−646	1903	2175	−272	2067	2332	−265
	(15.1)	(13.5)		(16.3)	(12.7)		(19.8)	(12.7)	
Western Europe	1963	4268	−2305	2244	4641	−2397	2164	5323	−3159
	(19.9)	(27.1)		(19.3)	(27.2)		(20.8)	(29.0)	
Eastern Europe	1610	1964	−354	1986	2166	−180	2331	2102	229
	(16.3)	(12.5)		(17.1)	(12.7)		(22.4)	(11.5)	
West Asia*	1004	3352	−2348	1077	3659	−2582	951	3919	−2968
	(10.1)	(21.3)		(9.1)	(21.4)		(9.1)	(21.3)	
Japan	826	1455	−629	1061	1240	−179	1179	1584	−405
	(8.3)	(9.2)		(9.1)	(7.3)		(11.3)	(8.6)	
Other Asia*	1043	1252	−209	1054	1634	−580	1081	1595	−514
	(10.6)	(7.9)		(9.1)	(9.6)		(10.4)	(8.7)	
Africa	363	329	34	351	335	16	328	562	−234
	(3.7)	(2.1)		(3.0)	(2.0)		(3.1)	(3.1)	
Other Developing Countries*	19	354	−335	12	380	−368	17	463	−446
	(0.2)	(2.2)		(0.1)	(2.0)		(0.2)	(2.5)	
Oceania*	116	168	−52	170	224	−54	142	410	−268
	(1.2)	(1.1)		(1.5)	(1.3)		(1.4)	(2.2)	
Unclassified*	1441	488	953	1799	638	1161	160	81	79
	(14.6)	(3.1)		(15.4)	(3.8)		(1.5)	(0.4)	
Grand Total	**9872**	**15763**	**−5891**	**11657****	**17092****	**−5435**	**10420**	**18371**	**−7951**

* a) West Asia Group includes Bahrain, Iran, Iraq, Jordan, Kuwait, Qatar, Saudi Arabia, United Arab Emirates, Oman, Israel, Syrian Arab Republic, Lebanon, Yemen Arab Republic and Yemen P. Dem. Republic.
b) Other Asia Group includes Afghanistan, Bangladesh, Burma, Nepal, Pakistan, Sri Lanka, Indonesia, Malaysia, Philippines, Singapore, Thailand, Hong-Kong, China P. Republic (Main land), China Republic (Formerly Formosa) Korean Republic, Socialist Republic of Vietnam and Korean Dem. P. Republic
c) Other Developing Countries Group includes Argentina, Bolivia, Brazil, Chile, Colombo, Paraguay, Peru, Uruguay, Venezuela, Bahamas, Barbados, Guatemala, Mexico, Panama Republic, Netherlands Antilles, Nicaragua, Trinidad and Tobago and Guyana.
d) Oceania Group includes Australia, New Zealand and Fiji.
e) Unclassified Group consists of countries not included elsewhere and also includes data on POL.

** The Grand Total for exports has been further revised to Rs.11,855 crores and that for imports to Rs.17,173 crores according to the March 1986 — Press Note DGCI&S.

PR — Partially Revised. P — Provisional.

Note: 1. Region-wise break-up for supplementary data amounting to Rs.107.17 crores for 1984-85 for exports of Petroleum Products are not available and hence not included in the details. These have been included in the group "unclassified" and Grand Total.

2. Exports of Bombay High Crude Oil for 1983-84, 1984-85, 1985-86 amounting to Rs.1231.09 crores Rs.1563.16 crores, and Rs.135.15 crores respectively are taken into account in Grand Total and unclassified Group but are not shown in Region details.

3. Figures in brackets are percentages to Grand Total.

Sources: 1) Ministry of Commerce, Annual Report, 1985-86, for the year 1983-84 and 1984-85.

2) Foreign Trade Statistics of India, March 1986, DGCI&S for the year 1985-86.

Regional Pattern of Exports — 1984-85*

India's exports grew by Rs.1,785 crores (18.1 per cent) from Rs.9,872 crores in 1983-84 to Rs.11,657 crores during 1984-85. The increase was largely due to higher exports to North America (Rs.416 crores, 28 per cent), Eastern Europe (Rs.376 crores, 23.4 per cent), Western Europe (Rs.281 crores, 14.3 per cent) and Japan (Rs.235 crores, 28.5 per cent). The group of Unclassified exports showed an increase of Rs.358 crores. This was largely on account of increase in exports of Bombay High crude by Rs.332 crores over the year. In the total exports of India, the share of North America rose from 15.1 per cent in 1983-84 to 16.3 per cent in 1984-85, of Eastern Europe from 16.3 per cent to 17.1 per cent and of Japan from 8.3 per cent to 9.1 per cent during the same period. Though exports to Western Europe increased, its share marginally declined to 19.3 per cent in 1984-85 compared to 19.9 per cent in the previous year. Marginal increases were also recorded in exports during the period to West Asia, Other Asia and Oceania.

Exports to Africa declined marginally by Rs.12 crores to Rs.351 crores in 1984-85, lowering its share in total exports from 3.7 per cent to 3 per cent. There was a small decline in exports to Other Developing Countries also.

The country-wise trends during 1984-85 reveal that the major increases in exports were recorded in respect of the U.S.A. (Rs.372 crores), the U.S.S.R. (Rs.349 crores), Japan (Rs.235 crores), the U.K. (Rs.114 crores) and the Federal Republic of Germany (Rs.96 crores). Exports to Hong Kong and China declined marginally over the same period.

In 1984-85, more than 52 per cent of India's exports were directed to only seven countries. The U.S.A. accounted for 15.2 per cent, (Rs.1,768 crores) of exports followed by the U.S.S.R. (14.2 per cent, Rs.1,655 crores), Japan (9.1 per cent, Rs.1,061 crores) and the U.K. (5.7 per cent, Rs.670 crores). The other important countries were the Federal Republic of Germany (4 per cent, Rs.471 crores), the United Arab Emirates (2.3 per cent, Rs.269 crores) and Saudi Arabia (2.1 per cent, Rs.245 crores).

Regional Pattern of Exports — 1985-86

India's exports, for which region and/or country-wise details are available, according to the provisional data, declined to Rs.10,420 crores during 1985-86 from Rs.11,657 crores in 1984-85 (Table X-4). This decline was mainly because of the fall in exports of crude oil, grouped under Unclassified exports, by Rs.135.15 crores in 1985-86, from Rs.1,563.16 crores in 1984-85. If exports of crude oil are excluded from total exports, non-oil exports were higher by Rs.191 crores in 1985-86 than those in the previous year. This increase in exports was largely on account of Eastern Europe (Rs.345 crores), North America (Rs.164 crores) and Japan (Rs.118 crores). The share of East Europe in India's exports rose to 22.4 per cent in 1985-86 from 17.1 per cent in 1984-85, that of North America to 19.8 per cent from 16.3 per cent and that of Japan to 11.3 per cent from 9.1 per cent, over the year. Exports to Other Asia and Other Developing Countries increased marginally.

Unclassified exports declined to Rs.160 crores in 1985-86 from Rs.1,799 crores in 1984-85, reducing its share in total exports to 1.5 per cent from 15.4 per cent. There were sizeable declines in exports to West Asia (Rs.126 crores), Western Europe (Rs.80 crores), Oceania (Rs.28 crores) and Africa (Rs.23 crores). As there was a relatively smaller decline in India's exports to Western Europe, their share in total exports of India rose to 20.8 per cent from 19.3 per cent.

The major increases were recorded in 1985-86 in exports to the U.S.S.R. (Rs.279 crores),

* According to the Annual Report of the Ministry of Commerce for 1985-86 total exports and imports figures are further revised, but the break-up is not available.

the U.S.A. (Rs.170 crores), Japan (Rs.118 crores) and Bangladesh (Rs.51 crores). Exports to the U.K. declined by Rs.145 crores to Rs.525 crores in 1985-86.

Nearly 58 per cent of India's total exports in 1985-86 were directed to the following countries: The U.S.A. (18.6 per cent, Rs.1,939 crores), the U.S.S.R. (18.6 per cent, Rs.1,933 crores), Japan (11.3 per cent, Rs.1,179 crores), the U.K. (5 per cent, Rs.525 crores) and the Federal Republic of Germany (4.7 per cent, Rs.485 crores).

Regional Pattern of Imports — 1984-85

In 1984-85, India's imports for which details of direction of trade are available, grew by Rs.1,329 crores (8.4 per cent) to Rs.17,092 crores. This increase was largely accounted by larger imports from Other Asia (Rs.382 crores), Western Europe (Rs.373 crores), West Asia (Rs.307 crores) and Eastern Europe (Rs.202 crores). Marginal increases in imports from North America, Africa, Oceania and Other Developing Countries were also recorded.

The shares of Western Europe, Eastern Europe and West Asia remained nearly the same. The share of Other Asia improved from 7.9 per cent in 1983-84 to 9.6 per cent in 1984-85 but that of North America declined from 13.5 per cent to 12.7 per cent during the same period.

Country-wise analysis shows that major increases in imports were recorded by the following countries — Bahrain (Rs.234 crores), Malaysia (Rs.190 crores), Federal Republic of Germany (Rs.177 crores), Saudi Arabia (Rs.171 crores), Canada (Rs.166 crores), the U.S.S.R. (Rs.145 crores), Singapore (Rs.137 crores), Belgium (Rs.121 crores) and the Netherlands (Rs.114 crores). Imports declined from Iran (Rs.271 crores), Japan (Rs.215 crores), the U.S.A. (Rs.124 crores), the U.K. (Rs.124 crores), and Iraq (Rs.117 crores).

Nearly 57 per cent of India's imports came from the U.S.S.R. (10.6 per cent, Rs.1,803 crores), the U.S.A. (9.8 per cent, Rs.1,661 crores), the Federal Republic of Germany (7.6 per cent, Rs.1,298 crores), Saudi Arabia (7.3 per cent, Rs.1,249 crores), Japan (7.3 per cent, Rs.1,240 crores), the U.K. (6 per cent, Rs.1,019 crores), Belgium (4.6 per cent, Rs.793 crores) and Iraq (3.9 per cent, Rs.674 crores). Other major sources of imports were Canada, Iran, Malaysia and Singapore.

Regional Pattern of Imports — 1985-86

India's imports rose to Rs.18,371 crores during 1985-86 recording a rise of Rs.1,279 crores over the end of the previous year (Table X-4). Imports from Western Europe increased by Rs.682 crores, (14.7 per cent) followed by Japan (Rs.344 crores, 27.7 per cent), West Asia (Rs.260 crores, 7.1 per cent) and Africa (Rs.227 crores, 67.8 per cent). There were increases in imports also from Oceania (Rs.186 crores), North America (Rs.157 crores) and Other Developing Countries (Rs.83 crores). The share of India's imports from Western Europe in total imports of India increased to 29 per cent in 1985-86 from 27.2 per cent in 1984-85 and that of Japan to 8.6 per cent from 7.3 per cent over the same period. The share of North America remained constant at 12.7 per cent. Imports from Eastern Europe declined by Rs.64 crores (3 per cent) and its share declined to 11.5 per cent from 12.7 per cent. There was a marginal decline of Rs.39 crores in imports from Other Asia and its share in total imports fell to 8.7 per cent during 1985-86 from 9.6 per cent during the previous year.

The country-wise data show that large increases occurred in imports from Iran (Rs.414 crores), Japan (Rs.344 crores), the United Arab Emirates (Rs.250 crores), the U.S.A. (Rs.238 crores) and France (Rs.215 crores). In contrast, major declines were recorded in imports from Saudi Arabia (Rs.476 crores), Singapore (Rs.193 crores), Australia (Rs.189 crores), Bahrain (Rs.177 crores) and the U.S.S.R. (Rs.156 crores).

The U.S.A. accounted for 10.4 per cent, (Rs.1,905 crores) of India's imports and was

followed by the U.S.S.R. (9 per cent, Rs.1,648 crores), Japan (8.6 per cent, Rs.1,584 crores), the Federal Republic of Germany (7.6 per cent, Rs.1,395 crores), the U.K. (6.3 per cent, Rs.1,158 crores), Iran (5 per cent, Rs.924 crores), Belgium (4.8 per cent.Rs.877 crores) and Saudi Arabia (4.2 per cent, Rs.774 crores). These eight countries accounted for more than 55 per cent of India's imports during 1985-86.

Trade Balance 1984-85

India's trade deficit in 1984-85 was Rs.5,435 crores as compared with Rs.5,891 crores in 1983-84. There were declines in the trade deficits with Japan (Rs.450 crores), North America (Rs.374 crores) and Eastern Europe (Rs.174 crores). The small surplus of Rs.34 crores recorded in 1983-84 with Africa declined to Rs.16 crores. But the surplus in the Unclassified regions improved to Rs.1,161 crores in 1984-85 from Rs.953 crores in the previous year. The trade deficits increased largely with Other Asia (Rs.371 crores) and West Asia (Rs.234 crores). Marginal increases in trade deficits with Western Europe, Other Developing Countries and Oceania were also recorded.

India continued to have the largest trade deficit with West Asia amongst all the regions, which rose to Rs.2,582 crores in 1984-85 from Rs.2,348 crores in 1983-84. Western Europe continued to follow with the trade deficit rising to Rs.2,397 crores from Rs.2,305 crores. The deficit with Japan was reduced to Rs.179 crores in 1984-85 from Rs.629 crores in the previous year.

The countries with which India had large trade deficits were Saudi Arabia (Rs.1,004 crores), the Federal Republic of Germany (Rs.827 crores), Iraq (Rs.631 crores), Belgium (Rs.607 crores), Malaysia (Rs.478 crores), Iran (Rs.376 crores), Canada (Rs.374 crores), Singapore (Rs.351 crores), the U.K. (Rs.349 crores) and Brazil (Rs.293 crores). The trade balance with the U.S.A. improved to a surplus of Rs.102 crores over the period from a deficit of Rs.395 crores in the preceding year. Other countries with which the trade deficit recorded substantial reduction were Iran (Rs.286 crores), the U.K. (Rs.238 crores) and the U.S.S.R. (Rs.204 crores). The deficit increased over the period with Bahrain (Rs.238 crores), Malaysia (Rs.184 crores), Saudi Arabia (Rs.171 crores), Belgium (Rs.143 crores), Singapore (Rs.142 crores) and Canada (Rs.123 crores).

Trade Balance — 1985-86

During 1985-86, India's trade deficit spurted to Rs.7,951 crores from Rs.5,435 crores during 1984-85 (Table X-4). The regions with which the trade deficits recorded increases are West Europe (Rs.762 crores), West Asia (Rs.386 crores), Japan (Rs.226 crores), Oceania (Rs.214 crores) and Other Developing Countries (Rs.78 crores). While there was a deficit of Rs.234 crores with Africa in 1985-86 in contrast to a small surplus of Rs.16 crores in 1984-85, the deficit with Other Asia declined to Rs.514 crores from Rs.580 crores in respective years. As regards Eastern Europe, on the other hand, there was a surplus of Rs.229 crores during 1985-86 as against a deficit of Rs.180 crores during 1984-85. The surplus in the Unclassified group dropped to Rs.79 crores from Rs.1,161 crores in the previous year due to the suspension of exports of crude oil from Bombay High, referred to earlier.

The largest trade deficit of Rs.3,159 crores was recorded with Western Europe, followed by West Asia with a deficit of Rs.2,968 crores and Other Asia with a deficit of Rs.514 crores. According to the country-wise data, there were large trade deficits with the Federal Republic of Germany (Rs.911 crores), Iran (Rs.829 crores), Belgium (Rs.658 crores), the U.K. (Rs.633 crores), Saudi Arabia (Rs.562 crores) and Iraq (Rs.513 crores)during the year. It would be worthwhile to note in this context that there was a trade surplus of Rs.286 crores with the U.S.S.R. and a small surplus of Rs.34 crores with the U.S.A.

The countries with which the trade deficit increased substantially are Iran (Rs.453 crores), the UK (Rs.284 crores), the United

Arab Emirates (Rs.241 crores), France (Rs.237 crores), Japan (Rs.226 crores) and Australia (Rs.215 crores). The deficit with Saudi Arabia declined substantially to Rs.562 crores during 1985-86 from that of Rs.1,004 crores during 1984-85. In respect of Malaysia and Singapore trade deficits with them were lower at Rs.281 crores and Rs.208 crores, respectively, in 1985-86 than that at Rs.477 crores and Rs.351 crores, respectively, in the preceding year.

IMPORT LICENCES

Data on import licences issued to various categories of importers in the government and the private sectors during the years 1984-85 and 1985-86 are presented in Table X-5. While interpreting these data it needs to be noted that in recent years, the validity of licences for import of capital goods/heavy electrical plants has been for two years while the currency of other import licences is eighteen months. Secondly, there is sometimes revalidation of the licences issued earlier, extension of their period and revision in their values due to changes in prices. Subject to these limitations, the impact of the changes in the value of licences issued from year to year would be reflected in variations in permitted imports and additional items brought under the licensing system or deleted therefrom.

Though there is no direct relation between the value of import licences issued and the value of imports during a year, a broad indication of the relative importance of licensing can be surmised from the movement in their ratio. This ratio at 45.8 percent in the year 1985-86 was about 2 percentage points lower than that in the year 1984-85, reflecting extension of liberal import policy in 1985-86. The value of import licences issued during 1985-86 increased by Rs.162 crores (2.0 per cent) to Rs.8,417 crores; this rise was on top of the increase of Rs.1,225 crores (17.4 percent) recorded in 1984-85.

The value of licences under all the 7 major categories (Table X-5), other than those issued to actual users (industrial) and small scale industries, increased. The value of such licences issued to actual users (non-industrial) increased five-fold to Rs.722 crores, and to State Trading Agencies two-fold to Rs.747 crores in 1985-86. Licences for capital goods/heavy electrical plants also rose by 17 per cent to Rs.2,173 crores; those to actual users (industrial) dropped by three-fourths to Rs.363 crores and to small scale industries also by the same proportion, to Rs.116 crores. The fall in these licences could be, at least partly, attributed to the widening of the OGL.

The changes in the value of licences discussed above got reflected in the relative shares of individual categories in total value of licences issued. Registered exporters topped the list by maintaining their share at about 33.8 percent in 1985-86, followed by capital goods/heavy electrical plants which improved its share by over 3 percentage points to 25.8 percent. The share of actual users (non-industrial) rose to 8.6 per cent from 1.4 percent and that of State Trading Agencies to 8.9 percent from 3.0 percent. The shares of actual users (industrial) and small scale industries contracted to 4.3 percent from 17.8 percent, and to 1.4 percent from 5.5 percent, respectively.

The value of licences issued to the government sector rose by 1.4 percent to Rs.3,663 crores and that to the private sector by 5.0 percent to Rs.4,754 crores in 1985-86. As a result, the share of government sector in the value of total licences issued declined further to 43.5 percent while that of the private sector rose to 56.5 percent.

In the government sector, the value of licences issued to State Trading Agencies rose sharply from Rs.246 crores in 1984-85 to Rs.747 crores in 1985-86. The value of licences to registered exporters increased by 20 percent and that to DGTD units for raw materials, rose marginally. Licences to actual users (both industrial and non-industrial taken together) declined by about one-fourth and for capital goods/heavy electricals, by one-tenth to Rs.1,142 crores.

Table X-5: Value of Import Licences issued classified by Major Categories and Sectors — 1984-85 and 1985-86

(Rupees crores)

Sr. No.	Category	GOVERNMENT SECTOR		PRIVATE SECTOR		TOTAL	
		1984-85	1985-86	1984-85	1985-86	1984-85	1985-86
	1	2	3	4	5	6	7
1.	Actual Users (Industrial)	1,366	329	101	34	1,467	363
		(37.8)	(8.9)	(2.3)	(0.7)	(17.8)	(4.3)
2.	Actual Users (Non-Industrial)	N.A.	689 (18.8)	N.A.	33 (0.7)	116 (1.4)	722 (8.6)
3.	Raw Materials (DGTD Units)	280	287	740	846	1,020	1,133
		(7.7)	(7.8)	(16.3)	(17.8)	(12.4)	(13.5)
4.	Small Scale Industries	—	—	458	116	458	116
				(10.1)	(2.4)	(5.5)	(1.4)
5.	Registered Exporters	289	347	2,497	2,501	2,786	2,848
		(8.0)	(9.5)	(55.2)	(52.6)	(33.7)	(33.8)
6.	Capital Goods/Heavy Electrical Plants	1,270	1,142	585	1,031	1,855	2,173
		(35.2)	(31.2)	(12.9)	(21.7)	(22.5)	(25.8)
7.	State Trading Agencies	246	747	—	—	246	747
		(6.8)	(20.4)			(3.0)	(8.9)
8.	Others*	163	122	143	192	306	314
		(4.5)	(3.3)	(3.2)	(4.0)	(3.7)	(3.7)
	Total	**3,613‡**	**3,663**	**4,526‡**	**4,754**	**8,255‡**	**8,417**

‡ Figures shown under Government and Private sectors do not add up to total because the sectoral totals exclude value of licences to Actual Users (non-industrial) for which data are not available.

* Include the categories 'Ad-hoc licences', 'Customs Clearance Permits', 'Director General of Supplies and Disposals Contracts', 'Government and against Government contracts', 'Replacement licences', and 'Co-operative societies'.

Note: Figures in parenthesis are percentage of the value of total licences issued to each category in the sector during the year.

Source: Chief Controller of Imports and Exports.

In the licences to the private sector, the category 'capital goods/heavy electrical plants' showed a rise of 76 percent in value of licences to Rs.1,031 crores in 1985-86. The value of licences to DGTD units for raw materials increased by 14.3 percent and that to registered exporters, which accounts for over one-half of the licences to the private sector, was higher, marginally. Licences to small scale industries which fall entirely under the private sector, dropped, as stated earlier. Licences to actual users (taking industrial and non-industrial together) also declined by about one-third to Rs.67 crores.

II—DEVELOPMENTS IN FOREIGN TRADE POLICY

Some changes were made from time to time, in response to shifts in market scenario in India and abroad, in the long-term Import-Export Policy announced on April 12, 1985. In April 1986, the Union Government decided to set up a high-powered committee in the Ministry of Commerce for examining policy issues relating to exports of engineering goods. Another high-powered committee in the Ministry of Industry was set up to take policy measures for more export production. These Committees were set

up on the basis of the recommendation of the D.V. Kapur Committee on 'operative plan and strategy for exports of engineering and capital goods' which had submitted its report in August 1984 and had covered a wide range of issues like raw-material, transport, finance and identification of markets for engineering exports.

The Export-Import Pass-Book Scheme was liberalised in April 1986 by treating supplies of finished goods by a pass-book holder to a unit in Free Trade Zone/100 per cent Export Oriented Units as deemed exports towards fulfilment of export obligation of Pass-Book holder.

Supplies of capital-goods and raw-materials to 100 per cent exort oriented units were given the status of 'deemed exports'. This was made applicable to supplies made on or after April 1, 1985. Earlier, only supplies of material handling equipment, building construction materials, consumables and spares were treated as 'deemed exports'. The category of 'deemed exports' was further expanded in May 1986 so as to include supplies of equipment and related materials to fertiliser projects, being set up in the country, against global tenders.

The Tea Trading Corporation of India (TTCI) was made a subsidiary of the State Trading Corporation (STC). Henceforth, the TTCI would look after the development of nationalised tea estates while the STC would take care of export promotion activities.

The Government for the first time announced a long-term export policy for cotton and cotton yarn. According to this policy, the present level of quotas — a minimum of 5 lakh bales of cotton and 40,000 tons of yarn upto 40 counts per annum will be retained for next 3 years.

There were also important developments in the import policy relating to canalisation. Imports of hot briquetted iron were canalised through Metal Scrap Trade Corporation. On the other hand, an amendment was made in the steel import canalisation policy permitting the Salem Steel Plant to import directly its requirements of HR coils for manufacture of stainless steel instead of routing it through the MMTC. Restrictions were placed on free OGL imports by ONGC, Oil India Ltd., (OIL) and Gas Authority of India Limited (GAIL). Henceforth, they have to obtain prior clearance from the empowered Committee on indigenisation under the Ministry of Petroleum and Natural Gas. On the other hand, the long-term import policy for export/trading houses was liberalised in June 1986 allowing these houses to import non-OGL Capital goods except restricted items listed in Appendix I Part–A of the Policy against their REP/additional licences. The major developments in import/export controls during the year 1985-86 as well as changes in import/export duties are indicated in Appendices I & II.

Export Controls

From time to time notifications (Appendix I) were issued allowing exports, within specified ceilings, of polyster filament texturised yarn, raw wool (indigenous), maize, pyrophyllite, live sheep and goats, wildlife and wildlife products, magnesite, ferro manganese and ferro chrome, etc. Minimum Export Prices were stipulated for export of wheat and wheat products, viscose staple fibre spun yarn, woollen knit wear, basmati rice, rayon filament yarn, etc. Exports of jowar and ragi, bajra and HPS groundnuts were canalised through the NAFED. However, private trade was also permitted to export these items as associates of the NAFED and subject to certain stipulations. Exports of psyllium husk/powder/seed, hand knitted woven woollen carpets were placed under OGL–3 subject to certain stipulations. Exports of meat-cum-bonemeal was brought under OGL-3 without any condition. Export of wheat seeds and paddy seeds were canalised through the National Seeds Corporation. Exports of high value added processed foods and Indian snacks in consumer packs up to one kg. are allowed within a limited ceiling on first come first served basis subject to Minimum Export Price of Rs.9 per kg. In February 1986, export of non-basmati rice was also allowed

subject to Minimum Export Price of Rs.4,000 per tonne which was reduced to Rs.3,000 per tonne in July 1986. Export of handicrafts of sandalwood was also allowed in May 1986 provided the value addition of handicrafts made of sandalwood is a minimum of 300 per cent of the average price of sandalwood per tonne announced by the Development Commissioner from time to time. Export of human skeletons and parts thereof was banned in August 1985.

With the falling international prices of tea, the Minimum Export Price of tea which was introduced in 1984 was reduced twice in April & July 1985 and ultimately it was abolished on August 10, 1985. The removal of the MEP helped exporters to quote competitive prices in international markets. The Government also removed all other restrictions imposed during 1983-84 on tea exports. All these measures helped in maintaining tea exports in a sagging market.

Import Controls

In the course of the operation of the long-term import policy introduced in April 1985, the following further changes have been made in the various categories of import licences since July 1985. The developments in the first quarter of 1985-86 (April-June) were discussed in the last year's Report.

Under the Open General Licence (OGL) list, laboratory and regent chemicals (other than those restricted or canalised), button cells, patterns (including contour roller dies), ceramic encased type wires, brazed aluminium plate and finned heat exchangers for air separation plants, optical encoders and gibberellic acid (by persons holding valid registration under the Insecticides Act of 1968) were added while rayon grade wood pulp, long-pepper and piper longum finn were deleted from the list.

The Mineral and Metals Trading Corporation of India and the Metal Scrap Trade Corporation were designated as the canalising agencies for the import of mineral phosphates and rock phosphates, rolled/forged rounds, hardened and/or tempered steel strips in high carbon grade (carbon 0.6% and above), tin mill black plate in coils/sheets and that of sponge iron including hot briquetted iron (HBI), alloy steel (including stainless/high speed steel), melting scrap (except un-rollable scrap) and stainless steel scrap to specifications AISI-316, CF 3M/316 L, alloy 20 and HV-9, respectively.

Some important modifications in the long term import policy were as follows. The facility was provided to accredited cameramen-cum-correspondents for the import of one camera in five years with accessories of c.i.f. value of not less than Rs.2000. On the other hand, the facility of allowing non-resident Indians owning fully or partly, companies and firms, societies and similar other corporate bodies, of imports of capital goods, raw materials, consumables and spares, zip fastners and zip coils used in the manufacture of made-up articles of exports by Registered exporters costing upto Rs.50,000 or 3 per cent of the face value of the import licence was withdrawn. Permission is given to hotels approved by the Department of Tourism for import of their specialised requirements to cater to the needs of foreign tourists, upto a value as recommended by the Departments of Tourism and Economic Affairs. Imports of gibberellic acid are allowed by any one subject to the condition mentioned above, as against only by recognised Agricultural Development Corporations, co-operative societies and farmers' associations.

Saffron, electric portable generators upto 3.5 kva, milk powder (all types), CNC single spindle turning machine upto 200 mm swing, automatic drill point grinder and self-adhesive tapes of all types (except those required by the electronics industry) were included in the list of restricted items while spline milking machine was deleted from this list.

Permission for imports of second-hand capital goods under the OGL and their NC/CNC versions by actual users (both industrial and non-industrial) was withdrawn. Like-wise, oil refineries which were earlier allowed to import iron and steel items under OGL were made

ineligible to import them. On the other hand import of computers/computer sub-systems and computer peripherals under OGL by recognised research and development units, hospitals, laboratories or institutions of higher education were allowed.

Synthetic rubber except butyl rubber, neoprene/chloroprene, hypalon, viton, bromobutyl, chlorobutyl, PTFE and EPDM which were allowed for imports under OGL last year were added to the list of limited permissible items.

Changes in export duties — 1985-86

Export duties are generally levied for mopping up a part of windfall profits accruing to exporters in the favourable international environment. The change in export duties leviable on each item is effected after considering various factors like domestic production, exportable surplus, international demand for products, prices prevailing in the international markets, changes in exchange rates, etc. **Changes effected in export duties during 1985-86 are indicated in Appendix-I-B.**

Some important modifications are discussed below: The export duty on coffee which was reduced by stages from Rs.720 per quintal to Rs.300 per quintal in August 1985, was revised to Rs.600 per quintal from January 31, 1986. The export duty on black pepper was increased from Rs.1.25 per kg. to Rs.3/- per kg. from May 7, 1985. The duty on semi-finished leather i.e. hides, skins and leather, tanned and untanned was increased from 10% to 15% in May 1985, whereas that on finished leather of goat, sheep and bovine animals was fully withdrawn from August 30, 1985. To provide a competitive edge to exports of unmanufactured tobacco in the International market and to ensure that tobacco farmers get fair prices, this item was fully exempted from export duty with effect from March 1, 1986. Earlier it used to attract export duty of 75 paise per kg. or 20% ad valorem whichever is lower

Changes in import duties — 1985-86

Changes in import duties announced during 1985-86 are presented in Appendix II-B. In April 1985, the Government exempted fully drilling rigs and spares thereof used in the rural water supply projects from import duties. Also the duty on imports of Industrial plants/ projects was reduced from 40% to 20% but later it was raised to 30% on March 1,1986. Power projects continue to be exempted from the basic customs duty.

In May 1985 basic import duty on 87 items used in the leather industry and on ten machines for leather industry was reduced from 40% to 25%. In July 1985, import duty on 24 items of raw materials and components used in leather industry was fixed at 40% and these items were fully exempted from auxiliary and additional duty. In March 1986, the duty on blades for leather shaving machines was reduced from 60% to 40%.

In May 1985, the basic customs duty on Computer Key-boards used for the manufacture of specified goods was reduced to 5% and full exemption was granted from auxiliary and additional duty. Tantalum powder for electronics industry was fully exempted from import duty, and on certain inputs used in the electronics industry the basic import duty was fixed at 40%. In September 1985, import duty on specific raw materials, components and sub-assemblies required for the manufacture of electronic items was reduced to 25% and these items were allowed full exemption from auxiliary and additional duty.

In June 1985, the full exemption from duty granted to the import of coking coal was extended by one year upto 30th June 1986. Imports of Nylon/Polyester filament yarn were also allowed duty free though under certain conditions.

In July 1985, the basic customs duty on 24 items of machinery and equipment for gems and jewellery industry was reduced to 15% when imported by registered exporters of gems

and jewellery. In March 1986, the basic customs duty for 74 specified machineries/ equipments imported by registered exporters of gems and jewellery was fixed at 25% ad valorem and these were fully exempted from auxiliary and additional duty. In August, imfapicin syrup, tablets, capsules and caplialaxin and cloxecillin syrup were fully exempted from duty to provide a thrust to anti-leprosy and anti-T.B. drive. The Government allowed duty free import of drugs, medicines and medical equipments for Bhopal gas tragedy in September 1985. Imports of Video cassettes/tapes recorded with educational and higher technical education programme by UGC, University/ Research Institution/research students were allowed duty free.

Partial exemption of 20% was allowed on four sophisticated textile machineries from September 11, 1985 till February 28, 1986. On March 1, 1986, this exemption was allowed to continue for one more year but the basic customs duty was raised to 25% with auxiliary and additional duty being fully exempted. Four specified components for the manufacture of specified textile machineries were also allowed to be imported at the basic customs duty of 25% ad-valorem. On September 30, 1985, partial exemption granted on imports of dimethyl terephtalate and terephtalic acid-both chemicals used in the manufacture of synthetic yarn was withdrawn and on February 17, 1986, the standard basic customs duty on both was increased. However, on March 1, 1986, the increases in the duties were cancelled and original rates prevailing after the September 1985 notification were allowed to continue.

In October 1985, the full exemption granted to edible oils imported under government agreement was extended by five months till March 31, 1986. On March 21, 1986, this exemption was further extended upto September 30, 1986.

In February 1986, urea was fully exempted from the customs duty and specific chemicals used as manure in production of complex fertilizers were also fully exempted from the basic customs duty.

The duty free status accorded to industrial alcohol imports in February 1985 was extended till November 30, 1986 to bridge the gap between demand and domestic supply. Similarly the benefit of exemption of basic customs duty in excess of 40 per cent ad-valorem and auxiliary duty in excess of 25 per cent ad-valorem to components imported for manufacture of fork lift trucks having a capacity of more than 10 tons was extended for one more year ending June 30, 1987.

The structure of auxiliary duty was rationalised in the Union budget, 1986-87 to only three slabs of nil, 25% and 40% compared to eleven slabs existing earlier. Also, to encourage the production of capital goods in the country, the general machinery rate of basic customs duty has been increased by 10% and the import duty on components of capital goods has been reduced by 5%. In March 1986, the basic customs duty on imports of crude iodine to be used for iodisation of salt was reduced to 25% from 100% and it was fully exempted from auxiliary and additional duty. Public funded research institutions have now been allowed duty free imports of consumable goods.

In June 1986, the Finance Minister announced a new tariff structure for imports of raw materials, piece parts and capital goods for electronics industry. Raw materials, piece parts and capital goods for modernisation will henceforth carry import duty of 30 per cent, 45 per cent and 55 per cent ad valorem, respectively. The general rate of duty on imports of computers is also reduced from 200 to 150 per cent ad valorem while computer peripherals will attract 75 per cent duty ad valorem.

Export Promotion Measures

Cash Compensatory Support (CCS) at 75 per cent of the normal rate was granted to goods supplied from Domestic Tariff Area (DTA) to units in four new Free Trade Zones (FTZ) at Madras, Falta, Noida and Cochin with effect

from August 12, 1985. A new scheme of Cash Compensatory Support (CCS) came into operation from July 1, 1986, which would remain effective for a period of three years ending March 31, 1989. However, for cotton textiles, the new scheme would remain valid upto December 31, 1988. Under the new scheme, the cascaded structure of taxation has been taken into account for fixing CCS rates of industrial products. The compensation for market/product development has been given in a highly selective manner. For agricultural products which are perishable in nature, a special compensation for high cost of transportation has been provided. For handicraft items, the value added by labour was taken into account for fixing CCS rates. On the other hand, compensation for incidence of higher export credit rates, no longer, enters the computation of CCS rates. This would be neutralised under a different scheme to be operated by the RBI. Under the new CCS regime, the multiplicity of rates has been reduced from 17 to 7 with the new rates ranging from 5 to 20 per cent of the FOB value with a few exceptions. The classification of commodities has been rationalised for administrative convenience and quick disbursement of CCS amount. The export products have been categorised into 8 major product groups viz. (i) engineering goods, (ii) chemicals and allied products, (iii) plastic goods, (iv) agricultural products & processed food items, (v) leather goods, (vi) sports goods, (vii) textiles and (viii) handicrafts and carpets. For the first time, 30 new items in different product groups were granted the benefit of the CCS scheme.

On March 31, 1986 the Government announced in the Lok Sabha, the establishment of an 'export development fund' with a grant of Rs.10 crores in the EXIM Bank. The fund will be available for undertaking techno-economic research surveys and for providing technical, administrative and financial assistance for exports, especially of new products and to new markets.

The Duty Drawback Scheme was made more effective by introduction of a quick payments procedure under which sanctions will be given within 24 hours, and actual payment effected within 15 days. A retrospective amendment was made in the Customs Act, 1962, to solve the payments problem of drawback for goods sent by parcel post. The drawback rates were raised on items such as leather garments, leather shoes, shoe uppers, woollen hand-made carpets, handloom fabrics and sports goods.

The Inland Container Depot (ICD) at Guwahati became operational in November 1985. Another ICD would be commissioned shortly at Ludhiana. The Railway Ministry is planning for more ICDs in different parts of the country to boost exports from hinterland areas.

The terms and conditions for the availability of export finance were progressively liberalised. The RBI prescribed a uniform rate structure for all export commodities with interest rate varying only according to the period of pre-shipment credit. The new rates effective from August 1, 1986 are 9.5 per cent for a period upto 180 days, 11.5 per cent for a period ranging between 180 and 270 days. Advances against cash incentives, etc. covered by ECGC guarantee (up to 90 days) are provided at 9.5 per cent. The RBI also introduced, effective December 28, 1985, new forward cover facilities to cover exchange rate fluctuation risks on export/import transactions.

The EXIM Bank announced on February 20, 1986 a reduction in its lending rates from suppliers' and buyers' credit to enable Indian exporters to remain competitive in the international market. The new lending rates for buyers' credit would be 8.5 per cent with a service charge of 0.5 per cent and a commitment fee of 0.5 per cent on the unutilised portion of the credit. The lending rate for suppliers' credit would be 8.5 per cent.

More tax benefits were given to the exporting community for promotion of export business. The 1986-87 Budget allowed a deduction of 4 per cent of the net foreign exchange earnings from taxable profits. For project exports, the tax deduction rate was raised to 50 per cent

of profits as against the earlier rate of 25 per cent.

For export promotion of value added agricultural products, the Union Government has set up the Agricultural and Processed Food Products Exports Development Authority (APEDA), on February 13, 1986. The Authority will have representatives from the concerned ministries of Central/State Governments, Trade, Research Institutes and Exporters. The Processed Food Export Promotion Council was merged with APEDA. A bill was also approved by the Parliament for the establishment of a Spices Board which would initiate production of new spices and spices products for international markets. The present Cardamom Board and the Spices Export Promotion Council would be merged with it.

The licensing of capacity for leather goods was liberalised in order to increase India's share in the international markets. The liberalised licensing is subject to export obligation of 75 per cent from the third year of commencement of commercial production. Similarly, gold wires, strips, plates, sheets and foils used in the manufacture of jewellery were exempted completely from central excise duty for boosting exports of gold jewellery items. For promotion of exports of high value-added steel items, the scope of the International Price Reimbursement Scheme (IPRS) was extended to include all categories of steel & alloy steel.

The 1986-87 Budget has made several provisions for export promotion. To improve the quality of gems and jewellery items, import duty on 74 items of machinery and equipment was reduced from the earlier level of 40 per cent to 25 per cent ad valorem. Gold was made available to exporters of jewellery at International price under the Gold Jewellery Export Promotion and Replenishment Scheme. The scheme was also broad based by permitting exports of gold jewellery of purity not less than 9 carats as against the earlier norm of purity not less than 14 carats. The import duty on specified machinery used in the processing and packaging of marine products was reduced from 100 per cent to 40 per cent ad valorem. The export duty on unmanufactured tobacco was abolished to provide Indian exporters a competitive edge in the international market. To increase exports of footwear, excise duty concession was extended to more units in the small-scale sector. Earlier, the concession was limited only to those units using power not exceeding 2 HP and employing not more than 49 persons.

The Union Government granted bulk import licences to private diamond traders to boost exports of value-added diamond jewellery. The licences would, however, be issued only to widely held public limited companies or private limited companies with an average export performance of over Rs.20 crores in the base period of 3 years. Earlier bulk licences were issued only to two public sector agencies viz. Hindustan Diamond Corporation (HDC) and Minerals and Metals Trading Corporation (MMTC).

III. SPECIALISED FOREIGN TRADE AGENCIES

State Trading Corporation of India (STC)

The State Trading Corporation of India (STC) which is a major canalising agency for imports and exports, plays a vital role in promoting exports of canalised and non-canalised items. The total turn over* of the STC during 1985-86 (April-March) at Rs.2,523 crores was lower by 12 per cent compared with Rs.2,865 crores achieved during 1984-85. The decline in turnover was due to change in norms regarding booking of exports on behalf of business associates. It has now been decided to book only those exports wherein STC is directly involved in contracting business or monitoring of the export business by an associate or it has provided adequate marketing support in some other form. Data for 1985-86, therefore, reflect only STC's own exports. Based on this yardstick, the turnover for 1985-86 was marginally

* Inclusive of domestic trade to the tune of Rs.15 crores in 1985-86 and Rs.27 crores in 1984-85.

higher by 1.7 per cent over the comparable turnover of Rs.2,481 crores in 1984-85. The STC's total exports during 1985-86 were Rs.377 crores which showed a rise of 12 per cent over those of Rs.335 crores in 1984-85. Its imports showed a marginal increase at Rs.2,131 crores during 1985-86 against Rs.2,119 crores during 1984-85. The off-shore trade, initiated during 1984-85 was able to generate business worth Rs.4 crores as against Rs.15 crores in the first year.

In its endeavour to increase exports, the STC concluded countertrade agreements involving purchase of edible oils, sugar, newsprint, certain chemical items and total commitments of about Rs.169 crores were made during the period under reference. Apart from its traditional markets, the STC ventured into new markets by introducing new items. An experimental scheme called 'raw material assistance scheme' was introduced during the year under review for supplying bulk drugs at international prices to its business associates so as to improve their competitiveness. The STC has also undertaken setting up of export-oriented projects.

Exports

Exports of canalised items during the year under review at Rs.141 crores declined by 31 per cent, as against Rs.205 crores during 1984-85 (Table X-6) and formed 37.4 per cent of total exports. The Government's decision to suspend the export of sugar and molasses affected the exports of these commodities. Exports of semi-processed leather and castor oil were also lower compared to the previous year.

The major non-canalised export items include coffee/instant coffee, tobacco, cotton textiles/fabrics/coir products, finished leather, engineering products, spices, seedlac/shellac, processed foods, footwear and fruits. The Government's decision to reduce the export of finished leather by 30 per cent affected exports of finished leather.

The shoe uppers unit of the STC at NOIDA, has so far executed job orders of approximately 8.5 lakh pairs of various types of shoe uppers for leading manufacturers/exporters. It has also executed its first export order of 10,000 pairs of shoe uppers from the German Democratic Republic and has now received repeat orders. Its joint venture project, Indo-Pirin Gloves Ltd. to manufacture leather fashion gloves for exports to Bulgaria is expected to commence commercial production very shortly. Further, the Government of India has appointed the Corporation as a nodal agency to monitor the bilateral trade with Yugoslavia. In its efforts to encourage exports of jute carpet backing cloth to North American countries, the Corporation continued to provide financial assistance to the jute industry by subsidising the export of jute carpet backing cloth (CBC) to these countries.

Imports

The STC, in its role as a supplier of essential commodities and industrial raw materials, has a prominent position in our import trade. Its ever expanding import trade itself is a manifestation of the fact (Table X–6). Commodity-wise, its imports during 1985-86 showed divergent trends. Imports of edible oils, newsprint, chemicals and fatty acid showed considerable declines and their share in total imports fell from 87 per cent in 1984-85 to 59 per cent in 1985-86. Import of edible oils at 10.5 lakh tonnes valued at Rs.1,006 crores during 1985-86 was lower by 34 per cent compared with 16 lakh tonnes valued at Rs.1,515 crores during 1984-85. On the other hand, the STC imported a large quantity of sugar to meet domestic demand. Its import of sugar during 1985-86 at 20 lakh tonnes valued at Rs.743 crores was more than five-fold of those in the previous year. Import of rubber at Rs.71 crores during 1985-86 was also higher by 39 per cent.

Cashew Corporation of India (CCI)

Exports of the Cashew Corporation of India during 1985-86 at Rs.3.0 crores were lower than those of Rs.4.2 crores in the previous year. The

Table X-6: Exports and Imports by STC
Major Items

(Rupees crores)

		1984-85 (Actual)	1985-86@ (Provisional)
A.	**Exports**		
I.	**Canalised**		
	Sugar	37	20
	Semi-processed leather	66	58
	Castor oil	31	19
	Molasses	12	1
	Opium	28	17
	Salt	3	5
	Others(including SBO re-export)	28	21
	Total I	**205**	**141**
II.	**Non-canalised**		
	Coffee & instant coffee	77	30
	Tobacco	67	5
	Tea	47	40
	Footwear and footwear components	32	36
	RMG/cotton textiles/fabrics/coir products	46	11
	Jute goods	22	23
	Finished leather	34	6
	Engineering products and construction material	17	7
	Drugs and chemicals	15	13
	Processed foods & fruits	11	6
	Spices	22	9
	Livestock, dry fish, meat and marine products	16	12
	Groundnut extractions/other extractions	15	12
	Seedlac/shellac	6	3
	Others	72	19
	Total II	**499**	**232**
	Total (I+II)	**704**	**373**
	Special Trading Arrangement (Off-shore trading)	**15**	**4**
	Grand Total	**719**	**377**
B.	**Imports**		
I.	**Canalised**		
	Edible oils	1515	1006
	Newsprint	138	129
	Sugar	144	743
	Chemicals	142	74
	Rubber	51	71
	Cement	27	25
	Drugs & pharmaceuticals	21	22
	Fatty acids	59	45
	Others	—	—
	Total I	**2097**	**2115**
II.	**Total non-canalised**	**22**	**16**
	Total (I+II)	**2119**	**2131**

@ Data for 1985-86 represent the STC's direct exports and exclude exports booked for business associates. Therefore, data for 1985-86 are not comparable with those for 1984-85.

sluggish international markets and the failure on its part to effect the shipment of the contracted quantity were the major factors responsible for the short fall in its exports. The Corpo-

ration continued its efforts in diversifying its activities in the field of other food items viz., spices, edible nuts, etc.

Handicrafts and Handloom Export Corporation (HHEC)

Exports of the HHEC at Rs.94.8 crores during 1985-86 were lower by Rs.34.5 crores or 26.7 per cent over the previous year. Its export of knitwear declined substantially from Rs.32.2 crores to Rs.1.2 crores during 1985-86 solely due to the de-canalisation of woollen knitwear effective 1st April 1985. Its export of gold jewellery was also lower by 2.8 per cent at Rs.76.6 crores compared with Rs.78.8 crores in 1984-85. Exports of carpets and handicrafts, however, showed a marginal rise of 4.6 per cent at Rs.7.9 crores as compared to Rs.7.5 crores in 1984-85.

Projects and Equipment Corporation of India (PEC)

The total turnover of the PEC at Rs.112 crores during 1985-86 was higher by Rs.10 crores or 9.8 per cent over the previous year reaching a new peak. The export of non-canalised items at Rs.99 crores registered a 17.9 per cent rise. Its exports of canalised items, however, declined by Rs.5 crores or 28 per cent to Rs.13 crores. The export turnover of the Corporation comprises mainly of overseas turnkey projects, mechanical equipment, railway rolling stock, electrical equipment, textile machinery, etc.

Minerals and Metals Trading Corporation of India (MMTC)

The MMTC which is the main canalising agency for exports of major minerals and imports of non-ferrous metals recorded a substantial improvement in its turnover, through expansion and diversification, during 1985-86. The total turnover of the MMTC at Rs.3,000.5 crores was higher by 8.1 per cent than that of Rs.2,775.3 crores during the year 1984-85, entirely because of larger exports. Its total exports increased by 65.5 per cent to Rs.622.6 crores following a major breakthrough in exports of non-canalised items. The canalised exports* comprising iron ore, manganese ore, chrome ore, coal and bauxite increased by 9.8 per cent from Rs.355.9 crores in 1984-85 to Rs.390.8 crores. Exports of iron ore increased from 153.8 lakh tonnes valued at Rs.304.8 crores in 1984-85 to 163.1 lakh tonnes valued at Rs.335.8 crores. Similarly, exports of coal increased from 0.5 lakh tonnes valued at Rs.3.0 crores in 1984-85 to 1.6 lakh tonnes valued at Rs.9.0 crores (Table X-7). The non-canalised exports largely consisting of naptha, barytes, quartz, shellac, iron ore concentrates, diamonds and emeralds increased from Rs.20.1 crores in 1984-85 to Rs.231.9 crores in 1985-86, of which exports of naptha alone amounted to Rs.151.3 crores. The MMTC exported for the first time iron ore concentrates amounting to 15.2 lakh tonnes valued at Rs.21.6 crores. Besides these items, the MMTC developed exports of variety of products to different markets like soyameal to Bulgaria, rice bran extraction to Singapore, brassware to Europe, etc. In addition, the MMTC exported tractors and sewing machines to Zimbabwe against imports of asbestos and earthmoving equipments to Jordan against rock phosphate, etc.

The total imports of MMTC declined marginally to Rs.2,367.1 crores in 1985-86 as compared with those of Rs.2,389.3 crores in the previous year. Imports of fertilisers which continued to be a major item, decreased from Rs.1,659.7 crores in 1984-85 to Rs.1,430.5 crores due to lower domestic demand from the drought affected areas. Imports of non-ferrous metals fell marginally from Rs.654.6 crores to Rs.643.7 crores (Table X-8). Imports of diamonds and emeralds increased by 36 per cent from Rs.15.6 crores to Rs.21.3 crores. Besides, imports of steel which were canalised through the MMTC for the first time during 1985-86 amounted to 4.7 lakh tonnes valued at Rs.195.5 crores.

Trade Development Authority (TDA)

The Trade Development Authority (TDA), a major catalyst in promoting India's exports,

* Please refer to foot-note to the Table X-8

Table X-7: Exports through MMTC*

(Quantity in lakh tonnes, Value in Rupees crores)

	1984-85 (Actuals)		1985-86 (Actuals)	
	Quantity	Value	Quantity	Value
Iron ore	153.8	304.8	163.1	335.8
Manganese ore	6.5	25.9	6.2	21.0
Chrome ore	2.7	22.2	2.2	22.5
Coal	0.5	3.0	1.6	9.0
Iron ore concentrates	—	—	15.2	21.6
Naptha	—	—	6.2	151.3
Diamonds & Emeralds	—	14.9	—	19.1
Other minerals	—	4.5	—	6.7
Others	—	0.8	—	35.6
Total exports		**376.1**		**622.6**

Table X-8: Imports through MMTC*

(Rupees crores)

	1984-85 (Actuals)	1985-86 (Actuals)
Non-ferrous metals	654.6	643.7
Of which:		
Nickel	112	70
Aluminium	102	68
Copper	187	267
Zinc	141	118
Stainless Steel	8.8	3.3
Fertilisers	1659.7	1430.5
Industrial Raw Materials	44.7	50.4
Diamonds	15.6	21.3
Steel	—	195.5
Coal	—	5.7
Others	5.9	16.7
Total	**2389.3**	**2367.1**

* The data presented in Table X-7 and X-8 would differ from the commodity-wise exports and imports data presented in Tables X-2 and X-3 which are based on DGCI&S data, on account of difference with regard to timing and valuation. Moreover, DGCI&S data are provisional as mentioned earlier and subject to revisions.

continued to be very active during the year ended March 1986. Its increasing membership is indicative of the significant role it plays in the vital field of our economy. Its regular membership reached an all-time high of 1178 from 1134 in 1984-85. The year under review witnessed consolidation of its marketing strategy adopted during 1984-85 for development of exports with special emphasis on selected markets and selected products. Apart from its traditional services such as buyer-seller meets, contact promotion programmes, participation in trade fairs, etc., the TDA made pioneering efforts in introducing various items in new as well as existing markets. The major activities of TDA during the year under review are discussed below.

During 1985-86, the TDA successfully organised four 'Buy India Campaigns' with leading department stores viz. Karstadt of West Germany, 3-Suisses (Cogedac) of France,

Steen and Strom of Norway and Bergdorf and Goodman of the USA. These 'Buy India Campaigns' resulted not only in bagging firm export orders to the tune of Rs.12.14 crores but also led to a major publicity thrust for Indian merchandise in these markets. Further, the TDA organised an 'India Promotion' in the Empire State Building, New York, which resulted in a wide publicity for Indian products in the USA.

The TDA organised four Buyer-Seller Meets (BSM) during 1985-86 for auto parts in Egypt; engineering goods in Malaysia; ready-made garments in Japan; fabrics in South Korea and consumer goods in France. These buyer-seller meets were able to generate firm export orders worth Rs.6.4 crores and business enquiries worth Rs.37.7 crores.

Under its Contact Promotion Programme (CPP), the TDA sponsored six sales-cum-marketing missions to various countries for different product groups. The details of these are given below:

Country	Product
U.S.A and Canada	Leather Goods
Australia	Household kitchenware and Moulded Luggage
Federal Republic of Germany and United Kingdom	Hand Tools
Brazil & Eastern States of the U.S.A	Electronic Components
Italy	Costume Jewellery
Sweden & Denmark	Home Furnishings & Carpets

All these missions together generated a business worth Rs.1.27 crores of firm orders, and export enquiries worth Rs.3.63 crores. Further, one such mission to the Middle East and Africa for diesel engines and its parts was planned in July 1986.

In its endeavour to project India's image as a supplier of quality manufactured products, the TDA organised participation in a number of international fairs and exhibitions. Prominent among them were the International Automobile Austellung, West Germany; Bicycle and Motor Cycle Fair, Milan; Wescon Electronic Show, San Francisco; Salon International des Composants, Paris; and Europe Software, Utrecht, Netherlands. Further, the TDA arranged 74 buying delegations comprising 172 representatives from various countries like the U.S.A., the U.K., the Japan, the Federal Republic of Germany, etc. and they were introduced to leading Indian manufacturers and exporters.

In order to motivate the clients to make counter samples, the TDA arranged displays of foreign samples at selected centres like Ludhiana, Madras, Bangalore and Cuttack. Further, the TDA organised a seminar on the bicycle industry which discussed among other things the ways and means to improve the technological base of the industry and to step up its exports.

The 'Technology Cell' set up in the TDA during 1984-85 for promoting joint ventures and transfer of technology was able to finalise two collaboration agreements and a few more are at various stages of finalisation.

During the year under review, the TDA was awarded with a number of consultancy assignments. These include (a) setting up of a Trade Information Centre in the Apparel Export Promotion Council, (b) the feasibility study for setting up an Ancilliary Industrial Estate adjoining NOIDA, (c) an action plan for promoting exports from Kerala, (d) a study on India's air-borne trade capacity, demand for air space and measures for augmenting exports, (e) a study on areas of delay in decision-taking in respect of NRI investment and other joint venture proposals and (f) a study on period of packing credit requirements of selected industries. In addition, the TDA continued to bring out studies on forecast of exports, inter-firm comparisons, supply surveys and preparation of papers for joint commission meetings.

In the field of dissemination of information, the TDA continued its efforts through display

of foreign product catalogues, seminars, market intelligence bulletin and its hand-books on overseas markets and products.

Free Trade Zones

Kandla Free Trade Zone (KFTZ)

The Kandla Free Trade Zone is a pioneer multi-product zone in the country. As against the export target of Rs.250 crores, its exports during 1985-86 amounted to Rs.236.9 crores or almost equal to previous year's exports. KFTZ's exports comprise wide-ranging products from needles to giant metallurgical equipments, chemicals and allied products, drugs and pharmaceuticals, cosmetics and toiletries, pesticides, BSS castor oil, etc. Its exports of engineering goods, stainless steel utensils, air compressors, domestic mixers, high pressure pumps, etc. amounted to Rs.73 crores during 1985-86. While exports of readymade garments and plastic products aggregated Rs.65 crores, those of sports goods, handicrafts,etc. were only Rs.3 crores. Destination-wise, the Zone's exports were spread over 15 different countries, the major share going to the U.S.S.R. There are 114 units operating in the zone including half-a-dozen multinational companies and 11 non-resident Indian owned/financed firms. Seventeen of the units have foreign equity participation and three have foreign technical collaboration. The zone provides employment to over 8500 persons.

Santacruz Electronics Export Processing Zone (SEEPZ)

The SEEPZ, the uniproduct export processing zone in operation for more than a decade, has made considerable progress over the years. Its share in the country's exports of electronics has been gradually increasing and reached the level of 63 per cent during 1985-86. However, the sluggish international markets in electronics in general, and in personal computer and semi-conductor market in particular, adversely affected exports during the year under review. As a result, its exports during 1985-86 at Rs.84 crores were lower by 12 crores than in the preceding year. Computer components and peripherals, which alone accounted for 64 per cent of its exports during 1984-85 declined to 57 per cent during 1985-86.

SEEPZ's exports to the U.S.A., Canada, East Europe and the U.S.S.R have shown substantial increase during 1985-86 pushing up its share in total exports to 51 per cent from 41 per cent during the previous year. On the other hand, its exports to Far East countries which accounted for more than 48 per cent of its total exports during 1984-85 declined to 40 per cent.

During the year under review, eight more units commenced operation in the zone bringing the total number of units in operation to 59 at the end of March 1986.

Madras Export Processing Zone (MEPZ)

The MEPZ which became operational in March 1986 has earned net foreign exchange worth Rs.4 lakhs in the short span of three months. Its first export consignment consisted of sewing machine motors to the U.S.S.R valued at Rs.2.4 crores. Its imports consisted of components for sewing machine motors, machinery and raw materials for ready-made garments valued at Rs.234 lakhs. The export target for 1986-87 has been fixed at Rs.50 crores.

Of the 88 units involving total investment of Rs.93.11 crores approved so far, 32 are having foreign collaborations including twenty-five of foreign equity participation envisaged at Rs.6.90 crores. Prominent among the units cleared are those for ready-made garments, electronics and electrical items, engineering goods, leather products, drugs and pharmaceuticals. On completion, these units together are expected to generate export earnings of Rs.297.76 crores per annum.

FALTA Export Processing Zone (FEPZ)

The Falta Export Processing Zone, one of the four new free trade zones in the country, has made considerable progress since its formal inauguration in October 1984. Commercial

production in the zone began in late 1985 and the first export consignment was made in early 1986. Twenty units with a total investment of Rs.32 crores in the field ranging from vegetable processing to computer software have so far been approved.

The West Bengal Industrial Infrastructure Development Corporation (WBIIDC) has taken up the work relating to infrastructural facilities outside the zone area. An area of 180 acres has already been acquired for this purpose and an investment of Rs.10 crores has been made by the State Government.

Cochin Export Processing Zone(CEPZ)

The Cochin Export Processing Zone, one of the multiproduct zones, has made further progress. An investment of Rs.8 crores has been made in the zone. Works relating to infrastructural facilities are at various stages of completion. Ten plots have been developed by now and are ready for allotment. Permission has been given to one unit for manufacturing nylon fishing nets. This unit is expected to make an investment of Rs.1.5 crores.

Noida Export Processing Zone (NEPZ)

The Noida Export Processing Zone (NEPZ), a multiproduct zone, was set up in 1984. The work relating to construction of the boundary wall has been completed and is notified as a custom bonded area. Work on other infrastructural facilities is progressing fast. Seventeen projects in the field of computer, electronics, garments and light engineering have been approved of which seven have foreign collaborations. The zone is expected to start commercial production soon.

100 Per Cent Export-Oriented Units (EOUs)

The scheme of 100 per cent export-oriented units introduced in December 1980 has been periodically reviewed to ensure the efficient functioning of the units as also to make them more competitive in the international markets. During the year 1985-86, a number of additional incentives such as reduction in customs bonding charges, permission to transfer products to other 100 per cent EOUs or EPZs, etc., were extended to these units. Further, the IDBI has instructed financial institutions to allow a rebate of 1.5 per cent in the applicable rate of interest on loans to EOUs for the first five years depending upon their performance. About 164 green cards were issued to approved units, which entitle them priority in supply of raw materials for construction purposes, transportation facilities, etc. Out of the 470 units approved, about 84 units have gone into production till the end of 1985. The total exports effected by these units upto December 1985 were around Rs.285 crores.

IV. TRADE AGREEMENT AND ECONOMIC AND TECHNICAL CO-OPERATION AGREEMENTS

Trade Agreements and Economic and Technical Co-operation Agreements are important instruments used by the Government to develop and diversify foreign trade and to improve economic relations with other countries. These agreements are largely indicative in nature and without any binding commitments on either of the countries. Negotiations and periodic reviews of the working of the trade agreements are undertaken to help remove hurdles and reduce bottlenecks. Annual Trade Protocols, indicating trade plans for the ensuing year are generally signed under the long-term trade agreements.

India has consistently maintained cordial and close economic and commercial relations with other countries and this has paved way to trade agreements and protocols with them. India signed during 1985-86 fresh long-term Trade and Payments Agreements with the U.S.S.R, the German Democratic Republic, Poland and Romania for the period 1986-90, on the expiry of the earlier agreements.

The fresh Trade and Payments Agreement with the U.S.S.R. for the period 1986-90 was signed on December 23, 1985. The agreement has a provision for automatic renewal for sub-

sequent periods of five years at a time. India has agreed to supply to the U.S.S.R. during the next five years larger quantities of agricultural products, minerals and ores, chemicals and allied products, leather and leather manufactures, textiles and engineering goods. The U.S.S.R. will increase export of machinery and fertilizers to India. Alongwith the Trade Agreement, another Agreement on 'Mutual deliveries of Goods and Commodities in 1986-1990', envisaging an increase by 1.5 to 2 times in the trade turnover during this period as compared to the total trade turnover in 1981-85 was also signed. A salient feature of the Agreement is the export of machinery, equipment, materials and services from India for civil and industrial projects in the U.S.S.R. A protocol on deliveries of machinery and equipment from the U.S.S.R. to the Republic of India in the year 1986-1990, on Deferred Payment Terms was also signed.

The Trade and Payments Agreement with Poland for a five year period from January 1986 to Decemebr 1990 was signed on February 22, 1986 at Warsaw. Alongwith the agreement, a long-term Trade Plan on reciprocal deliveries of goods and essential commodities between India and Poland during 1986-1990 was also signed.

The Trade and Payments Agreements with Romania and the G.D.R. were renewed for five years till December 31, 1990. The agreement with Romania has a long-term trade plan under which both countries have agreed on long-term arrangements covering a period of five years with regard to important commodities These include imports of steel products, fertilizers, chemicals, capital goods and railway equipments from Romania and exports of manganese and iron ore, bauxite, cotton, coffee, pepper and engineering goods from India.

The Trade Protocols for 1986 were signed with all the five countries with whom India has long-term Trade and Payments Agreements. The Trade Protocol with the U.S.S.R. provides for trade turnover of Rs4,850 crores. Exports to the U.S.S.R. are envisaged to touch Rs2,600 crores and imports around Rs2250 crores, leaving an export surplus of Rs350 crores. The Trade Protocol with Poland envisages a turnover of nearly Rs450 crores. The main items of imports from Poland will be machinery, ship engines, fishing vessels, chemical fertilizers, sulphur, coking coal and cement. Exports from India will consist of groundnut extractions, oilcakes, tea, pepper, iron ore, textile machinery, machine tools, mica and leather goods. The Protocol with GDR projects for a turnover of Rs414 crores with imports and exports at Rs207 crores each. The Trade Protocols with Romania and Czechoslovakia envisage a turnover of Rs280 crores and Rs467 crores, respectively, during 1986.

The Trade Protocol with China providing for exchange of goods worth US$ 100 million to US$ 160 million during 1986 was signed in November 1985. Under the protocol, China will import from India iron ore, chrome ore, steel products, tobacco, finished leather, mining and building machinery, instruments, tools, industrial products, etc. and export to India raw silk, silk products, edible oils, mercury, antimony and other mineral products, power station equipments, machinery, etc. The present protocol is governed by the trade agreement signed with China, after a gap of 30 years in 1984. Trade under this agreement is conducted in freely convertible currencies.

The protocol with Yugoslavia on Trade, Industrial and Third Country Co-operation and Other Economic Matters envisaging a total trade turnover of US$168 million was signed in July 1985. The protocol extends the special trade arrangement to step up Indo-Yugoslavia trade by one year till September 30, 1986.

The protocol of the Indo-Finnish Joint Commission signed in April 1985, identifies products for special thrust for export to Finland from India. Among these are agricultural products, leather goods, engineering goods and electronic components. Important items of import from Finland would include newsprint, pharmaceuticals, fertilizers, hot and cold steel coils and non-ferrous products.

India signed with Egypt, in November 1985, a Protocol for Cooperation in Trade and Other Fields of Activity. A trade protocol on Transfer of Technology in fields which would help boost India's exports was signed with Switzerland in September 1985 at a Indo-Swiss joint commission. In October 1985, India signed an agreement with Sweden regarding Swedish assistance of S. Kr. 30 million for the Integrated Programme of Technical Co-operation in Trade Promotion. The focus of this programme will be on developing exports of selected labour intensive products produced by small scale industries and small units in specific geographical areas.

India signed a Memorandum of Understanding with Pakistan on January 10, 1986, containing a number of provisions to boost mutual trade. Pakistan, under the Memorandum of Understanding, has allowed the private sector to import 42 items from India. The list of items includes tea, bidi leaves, books, viscose fibre and yarn, ferro alloys, calculators, calculating machines, etc. Pakistan had earlier in July 1978 barred its private sector from trading with India.

Memoranda of Understanding were also signed with Afghanistan and Ethiopia.

The Bilateral Textile Agreement with Norway allows, for the first time, free access for the export of traditional folklore textile products and made-up items of handloom fabrics to Norway markets. The agreement is initially effective for 18 months from July 1, 1985 but has provisions for extension for one more year.

In February 1986, a bilateral Agreement on Economic and Technical Co-operation was signed between India and Maldives.

V: INTERNATIONAL TRADE NEGOTIATIONS

GATT

New Round of Multilateral Trade Talks

In the 41st session of the contracting parties held in November 1985, it was decided to establish a Preparatory Committee to formulate recommendations on the objectives, subject matter and modalities of a new round of multilateral trade negotiations for adoption at the Ministerial meeting on September 15, 1986. The Preparatory Committee held a number of meetings since January 1986 and considered various issues like rollback of protectionist measures, trade in agricultural products, quantitative restrictions and other non-tariff measures, tariffs,Tokyo Round arrangements and agreements, structural adjustment and trade policy, etc. Meanwhile at the OECD Ministerial meeting held in Paris on April 17-18, 1986 the Ministers expressed support for a comprehensive new round of multilateral trade negotiations. In their view, the general purpose of the negotiations should be to improve the provisions and disciplines of GATT, expand its coverage, extend its application to new areas, promote a substantial further liberalisation of trade and consider trade aspects of other international economic policies.

Textiles (Multi-fibre Arrangement)

The Multi-Fibre Arrangement (MFA) which governs about half of the world's $100 billion textile trade, was renewed for another five year period from August 1, 1986. The renewed Multi-Fibre Arrangement is more restrictive because the coverage has been extended from cotton, wool and man-made fibres to all vegetable fibres including jute, coir, sisal and abaca. India along with China, however, had expressed strong reservations about the extension of coverage which was based on a U.S. proposal. Following India's strong opposition, the developed countries agreed not to apply the restrictions to "historically traded" textiles made out of jute and coir such as bags, sacks,

carpetbacking, mats, etc. Among the other favourable points of the new MFA is the reiteration of provisions for phasing out restraints by giving priority attention to some sections of the trade like wooltop exports of cotton producing countries. The new protocol also recognises that the final objective is to apply GATT rules to the export trade in textiles. A separate para has been incorporated in the protocol for cotton-producing and exporting countries. According to this, special consideration should be given to this group of countries which should be reflected in bilateral agreements providing for increased effective access.

Services

In accordance with the decision at the session of the contracting parties, held in November 28, 1985 which called for the continuation of the exchange of information which had begun in November 1984, further discussions on services were held in the GATT at meetings held in March, April and May 1986. The discussions were centred on four topics : (1) a study by the UNCTAD secretariat on services and the development process, dealing *inter alia* with dependence, transnational corporations, infant industries, information flows and regulations; (2) issues and concepts related to regulations affecting international transactions in services, on the basis of a GATT secretariat paper; (3) the conceptual framework; and (4) statistical problems and methodology.

India has reiterated her earlier commitment for the preservation and strengthening of the multilateral trading system. India is also not opposed to a new round of multilateral trade negotiations. It has, however, been made clear that any trade negotiations must be confined to trade in goods only. It has also been made clear that India would not be able to participate in any process that would commit her to negotiate "services" under the aegis of GATT. It is felt by the developing countries that liberalisation of invisible trade will benefit only the highly industrialised nations.

UNCTAD

The thirty-second session of the UNCTAD's Trade and Development Board held in Geneva from 10 to 21 March 1986, considered various trade and development related issues as well as questions concerned with UNCTAD VII. There was no agreement on the agenda, venue, or date for UNCTAD VII, due to be held in mid-1987.

The Generalised System of Preferences (GSP) Scheme

The GSP scheme was pioneered by the UNCTAD in 1970 to permit preferential access of a wide range of manufactured exports from developing countries to the markets of developed countries on a non-reciprocal and non-discriminatory basis. In 1982, trade benefiting from GSP coverage amounted to $32 billion, while in 1976, the first year when all schemes were in operation, it had amounted to only $12 billion.

This year's annual review of GSP was held in April 1986 in which 77 countries participated. In its agreed conclusion the Special Committee reaffirmed the generalised, non-discriminatory and non-reciprocal character of the GSP and expressed support again for its stated objectives of increasing the export earnings of developing countries, promoting their industrialization and accelerating their rates of economic growth. In particular, the importance of enabling indebted countries to expand exports so that they could avoid excessive constrictions of imports and maintain their development momentum while at the same time servicing their debts was recognized.

All schemes requiring renewal had also been extended beyond their initial period.

Global System of Trade Preferences (GSTP)

The negotiating committee which was to be set up before end-October 1985 as per the New Delhi Ministerial declaration of July 1985, met in Geneva in September 1985 and the following

three working groups (i) to finalise ground rules, (ii) to work out techniques and modalities, and (iii) to deal with the legal framework were constituted. The first round of negotiations under the GSTP was launched in Brasilia (Brazil) in May 1986. In the guidelines on techniques and modalities for negotiations the Indian suggestion for an across-the-board tariff reduction of upto 10 per cent per member country was also included. The meeting also decided to include in the negotiations direct trade measures, in particular, long-term and medium-term contracts on specific products on a bilateral or plurilateral basis and product consultations to promote trade and development through joint ventures and joint initiatives in marketing and import procurement.

All tariff, para-tariff and non-tariff concessions exchanged in the bilateral or plurilateral negotiations under the GSTP are to be extended to all participants. Measures can be taken to safeguard domestic industry from serious injury or threat from imports under the GSTP in special situations as well as in the event of a deterioration in balance of payments during implementation of the GSTP.

Under the Brasilia declaration, the GSTP shall be reserved for participation of developing country members of the Group of 77. In all, 49 of the 61 participating member countries have signed the agreement and the remaining are expected to do so after formal clearance from their respective Governments.

Commodities

The UNCTAD Committee on Commodities carried out from June 3 to 7, 1985 an assessment of the role played by the International Commodity Agreements (ICAs) in attaining the objectives of the Integrated Programme for Commodities (IPC), particularly the objective of price stabilization.

Most of the international commodity agreements now in force have sought to stabilize prices through buffer stocks, supply management measures such as export quotas, or both these mechanisms. At the meeting it was stated that for four commodities (tin, wheat, rubber and coffee) the mechanisms used have been "relatively successful in stabilizing prices within the terms of the corresponding Agreements". For cocoa and sugar, however, the "price stabilization objectives have not in practice been achieved". In the case of cocoa this was because of inadequate participation in the agreements and the resulting consequences for the financing of the buffer stock, and in the case of sugar, it was due to the incompatibility of domestic policies of major producers with the objectives of the Agreement.

The main lesson regarding the price stabilization mechanisms is that "buffer stocks alone are unlikely to ensure price stabilization (particularly at the floor) unless endowed with very substantial finance, with the certainty of its availability when needed". As regards the efficacy of the Agreements in general, "the main lesson is the critical importance of adequate participation and full cooperation from any major non-participants, coupled with a truly firm commitment to the ICA (and particularly as regards its financing) by its members. For quota-based agreements the former is of the utmost importance and for buffer-stock the latter".

Common Fund for Commodities

The agreement establishing the Common Fund for Commodities has so far been ratified by 91 countries. These countries account for US$ 273 million or 58.1 per cent of the Fund's directly contributed capital which is still significantly below the level (two-thirds) required for the Fund to start operations.

International Tropical Timber Agreement (ITTA)

The ITTA came into force provisionally on April 1, 1985 following eight years of preparatory work and negotiations carried out under the aegis of UNCTAD and FAO. Among other things, the Agreement aims at providing an effective framework for cooperation and con-

sultation between tropical timber producing and consuming countries with a view to promoting, expanding and diversifying international trade in tropical timber and improving structural conditions in the tropical timber market. The ITTA also seeks to ensure that the economic use of tropical timber is kept in balance with conservation of the resources and with environmental needs.

Cocoa

The United Nations' Conference on a new International Cocoa Agreement (ICCA) to replace the twice-extended 1980 Agreement resumed in Geneva on February 10, 1986. The two key issues were the indicator price levels and the mechanism of its adjustment. Consumers favoured automatic adjustment to reflect changing market prices, currency relationships and buffer stock levels, while producers preferred an annual review of prices to reflect costs of production and to provide reliable indications of earnings from cocoa exports. The reconciliation of these views proved difficult and the session was extended until March 4. However, following an announcement by the Ivory Coast that it would not join a new Agreement because, in its view, this would not guarantee stable and remunerative prices to producers, a significant number of consumers abandoned the search for a new ICCA with economic clauses, since one of their main conditions, viz., maximum participation by producers, would not be met. The Conference decided to reconvene in Geneva from July 7 to 11, 1986 in order to decide possible future arrangements. The present Agreement expires on September 30, this year.

Tin

The International Tin Council (ITC) considered various proposals to resolve the crisis in the Agreement caused by the suspension of buffer stock operations on October 24, 1985 due to lack of funds. The main proposal was to establish a new company ('Newco', later designated as 'Tinco') with financial contributions from all 22 member governments, as well as from bankers and brokers, to take over the assets and liabilities of the Fifth and the Sixth Agreements and to dispose them in an orderly manner over four years, minimizing disruption of the market. Accordingly, a Memorandum of Understanding to establish 'Newco'/'Tinco' was drafted. However, the Council failed to adopt it as Indonesia and Thailand rejected it, being opposed to the continuation of output and export restraints after the new company was set up; the former also disapproved of the proposed four-year period for disposing of ITA buffer stocks, preferring seven to ten years. The current Agreement is due to expire on June 30, 1987, and the Council decided that the Preparatory Committee should resume work on a possible successor body at its next regular session.

Chapter XI

Balance of Payments and International Monetary Developments

I. Balance of Payments Trends

India's balance of payments statistics for the year 1985-86 are not yet available. However, judging from available indicators such as movement in foreign exchange reserves, trends in foreign trade, etc. India's balance of payments, which had shown a marked improvement in 1984-85, deteriorated during 1985-86. India's foreign exchange reserves (foreign currency assets of the RBI, gold and SDR holdings) registered an increase, during 1985-86, of Rs.577 crores, i.e. less than one-half of the improvement of Rs.1,271 crores during 1984-85. If, however, repayments of Rs.253 crores to the IMF are excluded, reserves would show an increase of Rs.830 crores during 1985-86, as compared with a rise of Rs.1,201 crores during 1984-85 (excluding a net drawing of Rs.70 crores from the IMF).

In SDR terms, India's foreign exchange reserves declined by SDR 276 million in 1985-86 as against an increase of SDR 696 million in the previous year. Excluding capital transactions with the IMF referred to above, reserves would show a fall of SDR 78 million in 1985-86, as compared with a rise of SDR 629 million in 1984-85.

The DGCIS data on merchandise trade (provisional) presented in Chapter X of this Report show that the trade deficit widened sharply from Rs.5,188 crores during 1984-85 to Rs.7,951 crores in 1985-86. This larger trade deficit was the combined result of an increase of 11 per cent in imports and a decline of 8 per cent in exports during 1985-86 over 1984-85.

Available information on invisibles account indicate a reduction in the net invisible receipts during 1985-86, mainly on account of higher interest payments on official loans as well as on commercial borrowings. The travel receipts in 1985-86 are expected to be higher than in 1984-85 as the number of foreign tourists visiting India showed an increase of about 9 per cent during 1985-86 as against a decline of 11 per cent in the previous year. Because of the decline in incomes of oil exporting countries, receipts on account of private transfers representing mainly inward remittances from non-resident Indians might have shown a decline. Payments on account of foreign travel, transportation and miscellaneous items might have increased in 1985-86.

As regards capital account, the inflow of net external assistance during the year was about the same as in 1984-85. The net receipts under Non-Resident (External) Rupee [NR(E)R] Accounts were somewhat lower in 1985-86, while those in respect of Foreign Currency Non-Resident [FCNR] Accounts were substantially higher. The net inflow under the NR(E)R accounts, excluding estimated interest element, amounted to Rs.287 crores during 1985-86 as compared with that of Rs.354 crores during 1984-85. On the other hand, the net inflow under the FCNRA scheme during 1985-86 was

substantially higher at Rs.1,151 crores as against Rs.275 crores in 1984-85.

Developments in Reserves

The foreign currency assets of the Reserve Bank rose by Rs.568 crores during 1985-86 as against an increase of Rs.1,319 crores in 1984-85. Excluding acquisition of SDRs worth Rs.663 crores from the IMF, these assets would show an increase of Rs.1,231 crores in 1985-86 as against an increase of Rs.1,634 crores (excluding acquisition of SDRs worth Rs.242 crores through the IMF and net repayment of Rs.73 crores in foreign exchange to the IMF) in 1984-85.

The SDR holdings declined by SDR 31.4 million to SDR 115.1 million during 1985-86. In the previous year, these had fallen by SDR 69.9 million. During 1985-86, repurchases from the IMF in SDRs amounted to SDR 197.8 million (SDR 66.5 million under the Compensatory Financing Facility and SDR 131.3 million under the Extended Fund Facility). The charges paid to the IMF on the use of Fund resources and SDRs amounted to SDR 391.9 million. The receipts from the IMF by way of remuneration and interest on SDR holdings amounted to SDR 18.1 million and SDR 15.1 million, respectively. Acquisition of SDRs from the IMF totalled SDR 525 million. In 1984-85, drawings from the IMF in SDRs amounted to SDR 160 million and repurchases in SDRs were SDR 33.2 million. The charges paid to the Fund amounted to SDR 443.4 million and the receipts by way of remuneration and interest on SDR holdings were SDR 21.8 million and SDR 24.9 million, respectively. Acquisition of SDRs from the IMF was lower at SDR 200 million.

Gold holdings of the Reserve Bank increased during 1985-86 by Rs.28 crores to Rs.274 crores (valued at the statutory price of Rs.84.39 per 10 grammes). In the previous year, these had risen by Rs.20 crores.

During the first quarter of 1986-87 (i.e. April-June 1986), the foreign currency assets of the Reserve Bank fell by Rs.299.4 crores as compared with that of Rs.137.0 crores in the corresponding period of 1985. Excluding acquisition of SDRs equivalent of Rs.163.3 crores through the foreign currency assets, these assets would show a fall of Rs.136.1 crores, as against an increase of Rs.173.3 crores (excluding acquisition of SDRs worth Rs.310.3 crores) in April-June 1985. SDR holdings increased by SDR 11.8 million to SDR 126.9 million in April-June 1986 due mainly to acquisition of SDR 115 million, partly offset by payment of charges on the use of Fund resources and SDRs amounting to SDR 40.6 million, and repurchases of SDR 68.7 million from the IMF under the EFF arrangement. In April-June 1985, SDR holdings had risen by SDR 157.2 million. Gold holdings of RBI remained unchanged at Rs.274 crores during April-June 1986. All in all, foreign exchange reserves (foreign currency assets of RBI, SDRs and gold holdings) registered a decline of Rs.275 crores during April-June 1986 as against an increase of Rs.60 crores during the corresponding period of 1985.

In SDR terms, foreign exchange reserves declined by SDR 390 million during April-June 1986 as against an increase of SDR 46 million in April-June 1985.

II. Foreign Investment: Policy and Developments

The liberal policy for encouraging portfolio and direct investment by non-residents of Indian nationality/origin, and by overseas corporate bodies owned to the extent of 60 per cent or more by such non-residents pursued in the past few years was continued during the year. Previously, the non-resident Indians were required to make an application to the Reserve Bank of India for the purpose of sale/transfer of their holding of shares/debentures in listed companies acquired by them with repatriation facilities. During the year, to expedite the processing of such applications, it was decided that non-resident Indians could approach an authorised dealer who would obtain permission from the Reserve Bank for sale/transfer, as well as for remitting the sale proceeds or will

credit them to NR(E)R Accounts or FCNR Accounts on production of no-objection certificate from the Indian tax authorities.

The non-resident Indians are now permitted to invest in sick companies in India on a repatriation basis. A company is considered sick if a public financial institution or a consortium was already formulating a plan for its rehabilitation/revival, or the company was continuously showing losses for the last three years and the market price of the share was below par for the past two years. Further, the public financial institution/banks should be satisfied that the relevant unit is a sick one. Bulk investments by non-resident Indians on private placement basis are being allowed in sick companies either in the form of sale of existing shares or by issue of fresh capital. Investment on repatriation basis upto 100 per cent of the equity capital of the company could be permitted and repatriation of capital brought in for a sick company would be permitted after a minimum period of five years.

Data on actual foreign investment in India during the year 1985-86 are not yet available. Data on approvals for such investment have shown an increase during the year. The number of proposals approved by the Reserve Bank under facilities available for direct investment with full repatriation rights to non-resident Indians rose from 211 in 1984-85 to 264 in 1985-86. The amount involved went up sharply from Rs.81 crores in 1984-85 to Rs.255 crores in 1985-86. As in the past, approval for investment under the 40 per cent scheme at Rs.242 crores accounted for the bulk of investments (95 per cent) approved. Such approvals during 1985-86 were more than thrice those of Rs.75 crores in 1984-85. Approvals under the 74 per cent Scheme more than doubled from Rs.6 crores in 1984-85 to Rs.13 crores during the year. Proposals approved for direct investment on non-repatriation basis went up from Rs.26 crores in 1984-85 to Rs.41 crores in 1985-86.

The number of approvals granted for portfolio investment on repatriation basis increased from 241 in 1984-85 to 641 in 1985-86. However, the amount invested by banks on behalf of their non-resident constituents through stock exchanges declined from Rs.10 crores in 1984-85 to Rs.6 crores in 1985-86.

In the sphere of foreign collaboration in Indian Industry, the number of approvals went up by 19 per cent from 822 in 1984-85 to 979 in 1985-86. Of the approvals granted during 1985-86, 574 were for technical collaborations, 232 for financial collaborations and 173 for drawings and design. The emphasis on technical collaborations is expected to enhance the efficiency and productivity of Indian industries. In the long-term, it will help to improve the competitiveness of Indian exports and reduce the dependence on foreign imports.

During the year, 6 more companies complied with the final orders issued under Section 29(2), FERA 1973, requiring Indianisation/dilution of non-resident equity holdings to a specified level. By the end of March 1986, the number of foreign companies complying with FERA directives rose to 369. The remaining 23 companies to whom directives for Indianisation/dilution of foreign equity holdings have been issued were at various stages of compliance such as issue/transfer of shares, winding up, etc. Thus, by the end of March 1986, out of 898 applications received, only 2 cases remained to be disposed of.

The value of consents for capital issues granted to Indian joint-stock companies by the Controller of Capital Issues rose by 68 per cent during 1985-86, from Rs.2,010 crores in 1984-85 to Rs.3,455 crores in 1985-86. The number of consents issued to these companies for raising capital from non-residents was 159 in 1985-86, as against 133 in 1984-85; however, the total amount involved was substantially lower at Rs.189 crores than that of Rs.316 crores in 1984-85. Consequently, the share of issues to non-residents in the value of total consents dropped from 15.7 per cent in 1984-85 to 5.5 per cent in 1985-86 (Table XI-1).

The fall in the value of consents granted for raising capital from non-residents was account-

Table XI-1: Consents for Capital Issues* — Aggregate and by Non-residents (N.R.) 1983-84 to 1985-86

(Rupees crores)

YEAR	INITIAL ISSUES			FURTHER ISSUES			BONUS ISSUES			DEBENTURES ISSUES			LOANS, etc.			TOTAL		
April to March	Total	N.R.	2 as % of 1	Total	N.R.	5 as % of 4	Total	N.R.	8 as % of 7	Total	N.R.	11 as % of 10	Total	N.R.	14 as % of 13	Total (1+4+7 +10+13)	N.R. (2+5+8 +11+14)	17 as % of 18
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1983-84	192.1	8.3	4.3	127.4	11.1	8.7	94.6	24.4	25.8	609.4	0.8	0.1	62.2	43.1	69.3	1085.7	87.7	8.1
1984-85	557.3	95.6	17.1	222.2	8.7	3.9	88.3	17.1	19.3	919.5	2.3	0.3	222.4	192.4	86.6	2009.8	316.2	15.7
1985-86	645.5	26.6	4.1	420.8	14.2	3.4	178.9	27.3	15.3	1989.0	35.2	1.8	221.1	85.7	38.8	3455.3	189.0	5.5

* By Indian Joint-Stock Companies.

ed for by loans and initial issues. The value of consents for initial issues to non-residents declined sharply by 72 per cent, from Rs.95.6 crores in 1984-85 to Rs.26.6 crores in 1985-86. The share of non residents in the total consents/initial issues declined from 17.1 percent in 1984-85 to 4.1 per cent in 1985-86. Approvals for raising loans from non-residents also suffered a setback, falling from Rs.192.5 crores in 1984-85 to Rs.85.7 crores in 1985-86. As a result, the share of non-residents in the total value of loans consented to be raised fell from 86.6 per cent in 1984-85 to 38.8 per cent in 1985-86. On the other hand, the value of consents for further issues, bonus issues, as well as debenture issues rose substantially, although the amounts raised through these sources remained small. The value of consents for further issues and bonus issues rose by 63 per cent and 60 per cent respectively in 1985-86, as compared to the previous year. However, as a proportion of total of further issues and bonus issues, those to non-residents showed a decline to 3.4 per cent and 15.3 per cent, respectively in 1985-86 from 3.9 per cent and 19.3 per cent in 1984-85. The most impressive increase was in respect of consents for debentures issues, which rose from Rs.2.3 crores in 1984-85 to Rs. 35.2 crores in 1985-86.

The number of Indian joint ventures in operation abroad declined marginally from 157 at the end-December 1984, to 156 at end-December 1985. Besides, 52 joint ventures were at different stages of implementation. Indian participation in equity share capital of these joint ventures has been mainly in the form of export of capital equipment and technical know-how. Equity investments in Indian joint ventures in operation abroad increased from Rs.85.3 crores to Rs.93.8 crores over the same period. The approved Indian equity in Indian joint ventures under implementation, however, declined from Rs.35.2 crores at end-December 1984 to Rs.23.5 crores at end-December 1985. Remittances received in India from joint ventures operating abroad as at the end of December 1985 amounted to Rs.9.3 crores by way of dividends and Rs.29.6 crores by way of fees for technical know-how, engineering services, management consultancy, etc.

III. External Assistance*

The improvement in fresh authorisations of external assistance to India noticed in 1984-85 continued in 1985-86. However, the rate of increase in authorisations during 1985-86 was significantly lower than in 1984-85. Authorisations increased by Rs.449 crores or 14 per cent from Rs.3,103 crores in 1984-85 to Rs.3,552 crores in 1985-86 as against an increase of Rs.1,274 crores or 70 per cent in 1984-85 (Table XI−2) at pre-December 1971 IMF parity rates (At the current exchange rates, authorisations increased from Rs.4,768 crores in 1984-85 to Rs.5,563 crores in 1985-86. In 1984-85, authorisations had nearly doubled from Rs.2,335 crores to Rs.4,768 crores). The increase in authorisations in 1985-86 was due to larger loan authorisations of Rs.706 crores, partly offset by a decline in grants of Rs.257 crores.

The utilisation of external assistance at Rs.1,623 crores during 1985-86 was lower by Rs.10 crores than in the previous year. Utilisation of loans was higher by Rs.21 crores, and grants, lower by Rs.31 crores.

Debt service payments, on a provisional basis, were higher at Rs.861 crores in 1985-86 as compared with Rs.785 crores in 1984-85. As a result, the net inflow (utilisation net of debt servicing) of foreign aid at Rs.762 crores was substantially lower by Rs.86 crores or by 10 per cent than in the previous year (Table XI-5).

Authorisations

External loan assistance authorised during the year, increased by Rs.706 crores to Rs.3,301 crores due to fresh authorisations from the USSR of Rs.833 crores. Loan authorisations from the World Bank group increased marginally from Rs.2,024 crores in 1984-85 to

* The discussion in this section is in terms of values arrived at on the basis of pre-December 1971 IMF parity rates unless otherwise stated.

Table XI-2: External Assistance
(Fiscal Years)

(Rupees crores)

Items	Loans	Grants	PL 480 Aid	Total (2+3+4)
1	2	3	4	5
1. Amount undisbursed as at the end of March 1966	**1,604**	**86**	**108**	**1,798**
2. Amount undisbursed as at the end of March 1969	**1,601**	**25**	**123**	**1,749**
3. Authorisations during 1969-74	**3,793**	**188**	**32**	**4,013**
4. Authorisations during 1974-79	**6,593**	**1,611**	**—**	**8,204**
	(7,860)	**(1,703)**		**(9,563)**
5. Authorisations during:				
(a) 1979-80	780	432	—	1,212
	(964)	(484)		(1,448)
(b) 1980-81	2,896	125	—	3,021
	(3,174)	(160)		(3,334)
(c) 1981-82	2,160	218	—	2,378
	(2,731)	(258)		(2,989)
(d) 1982-83	1,878	322	—	2,200
	(2,509)	(321)		(2,830)
(e) 1983-84	1,473	356	—	1,829
	(1,952)	(403)		(2,355)
(f) 1984-85	2,595	508	—	3,103
	(4,204)	(564)		(4,768)
(g) 1985-86*	3,301	251	—	3,552
	(5,270)	(293)		(5,563)
6. Utilisation during 1969-74	**3,510**	**158**	**155**	**3,823**
7. Utilisation during 1974-79	**4,607**	**1,215**	**—**	**5,822**
	(5,615)	**(1,321)**		**(6,936)**
8. Utilisation during:				
(a) 1979-80	850	289	—	1,139
	(1,058)	(307)		(1,365)
(b) 1980-81	1,020	331	—	1,351
	(1,226)	(388)		(1,614)
(c) 1981-82	1,188	330	—	1,518
	(1,502)	(355)		(1,857)
(d) 1982-83	1,428	274	—	1,702
	(1,912)	(285)		(2,197)
(e) 1983-84	1,395	237	—	1,632
	(1,972)	(256)		(2,228)
(f) 1984-85	1,299	334	—	1,633
	(1,992)	(356)		(2,348)
(g) 1985-86*	1,320	303	—	1,623
	(2,133)	(362)		(2,495)
9. Amount undisbursed as at the end of March 1986	**10,453**	**565**	**—**	**11,018**
	(17,322)	**(744)**		**(18,066)**

Notes: 1. 'Loans' include P.L. 480 Title I convertible currency credits and refinance credits but exclude rupee loans out of P.L. 480/P.L. 665 rupee counterpart funds. 'Grants' include grants under debt relief but exclude grants out of P.L.480/P.L.665 rupee counterpart funds. P.L.480 aid comprises value of imports on rupee payment terms under P.L.480 Title I programme.

2. The rupee value of amounts undisbursed at the end of March 1966 (except those for P.L.480 aid which are given at the pre-devaluation rate of exchange) are shown at the post-devaluation rate of exchange. The rupee values of amounts undisbursed at the end of March 1969, the amounts authorised and utilised during each of the subsequent years, and the amounts undisbursed at the end of March 1986 have been arrived at on the basis of Pre-December 1971 IMF Par values. Figures in brackets shown against items 4,5,7 and 8 indicate the rupee values calculated at the rupee's annual average rate of exchange for the respective years while figures in brackets shown against 'amount undisbursed as at the end of March 1986' (item 9) represent rupee values, calculated at the rates prevalent at the end March 1986.

* **Provisional**

Rs.2,050 crores; its share in total loan authorisations, however, came down from 78 per cent in 1984-85 to 62 per cent in 1985-86. Loan authorisations by France were higher during the year by Rs.95 crores while the OPEC Group sanctioned fresh commitments of Rs.44 crores. On the other hand, loan authorisations from Canada, Japan, USA and West Germany taken together were lower by Rs.223 crores. There were no authorisations from the IFAD, Denmark and Switzerland during the year (Table XI-3).

Table XI-3: Loans Authorised and Utilised during 1984-85 and 1985-86 (Fiscal Years)

(Rupees crores)

Country/ Institution	Authorisations						Utilisation					
	1984-85			1985-86§			1984-85			1985-86§		
	Project	Non-Project	Total	Project	Non-Project	Total	Project	Non-Project	Total	Project	Non-Project	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
1. IBRD/IDA	2,024	—	2,024	2,050	—	2,050	843	—	843	775	—	775
	(3,208)		(3,208)	(3,344)		(3,344)	(1,336)		(1,336)	(1,264)		(1,264)
2. IFAD	—	—	—	—	—	—	12	—	12	18	—	18
							(19)		(19)	(29)		(29)
3. Canada	150	—	150	23	—	23	33	4	37	14	17	31
	(195)		(195)	(29)		(29)	(43)	(5)	(48)	(18)	(22)	(40)
4. Denmark	—	24	24	—	—	—	—	15	15	—	9	9
		(26)	(26)					(17)	(17)		(11)	(11)
5. France	34	—	34	129	—	129	99	7	106	142	11	153
	(33)		(33)	(142)		(142)	(95)	(7)	(102)	(157)	(12)	(169)
6. West Germany	109	—	109	72	31	103	61	4	65	36	29	65
	(212)		(212)	(160)	(69)	(229)	(119)	(8)	(127)	(80)	(64)	(144)
7. Italy	2	—	2	—	5	5	5	—	5	—	7	7
	(1)		(1)		(3)	(3)	(3)		(3)		(4)	(4)
8. Japan	142	—	142	82	—	82	22	—	22	50	—	50
	(332)		(332)	(221)		(221)	(51)		(51)	(135)		(135)
9. Netherlands	—	32	32	2	—	2	—	10	10	—	24	24
		(55)	(55)	(4)		(4)		(17)	(17)		(47)	(47)
10 Switzerland	18	—	18	—	—	—	—	—	—	1	—	1
	(47)		(47)							(3)		(3)
11. U.S.A.	50	9	59	29	—	29	21	1	22	37	—	37
	(79)	(14)	(93)	(47)		(47)	(33)	(2)	(35)	(60)		(60)
12. OPEC*	—	—	—	44	—	44	48	—	48	30	—	30
				(88)		(88)	(89)		(89)	(58)		(58)
13. U.S.S.R.	—	—	—	833	—	833	108	—	108	115	—	115
				(1,161)		(1,161)	(139)		(139)	(160)		(160)
14. Others	1	—	1	1	—	1	1	5	6	1	4	5
	(2)		(2)	(2)		(2)	(2)	(7)	(9)	(2)	(7)	(9)
Total	**2,530**	**65**	**2,595**	**3,265**	**36**	**3,301**	**1,253**	**46**	**1,299**	**1,219**	**101**	**1,320**
	(4,109)	**(95)**	**(4,204)**	**(5,198)**	**(72)**	**(5,270)**	**(1,929)**	**(63)**	**(1,992)**	**(1,966)**	**(167)**	**(2,133)**

* Comprises Iran, Iraq, Kuwait, Abu Dhabi, Saudi Arabia and OPEC Special Fund.

§ Provisional.

Note: Figures in brackets indicate the rupee values at the average annual rates of exchange prevalent during respective years.

Of the loans authorised during the year, project loans at Rs.3,265 crores accounted for 99 per cent of the total. Project loan commitments from the IBRD/IDA were marginally higher in 1985-86 and this group continued to be the largest single source for project loans. The USSR and the OPEC which had not given any project loan authorisations in the previous year made commitments during 1985-86. Project loan authorisations from France, increased nearly four-fold in the year under review.

The non-project loan authorisations declined from Rs.65 crores in 1984-85 to Rs.36 crores, their share in the total loan authorisation shrinking from 3 per cent in 1984-85 to 1 per cent in 1985-86. Such authorisations during the year came only from West Germany and Italy.

Authorisations of grants dropped by one-half from Rs.508 crores in 1984-85 to Rs.251 crores in 1985-86. Grant assistance from the U.K. at Rs.182 crores during the year was lower by Rs.132 crores. Authorisations from Denmark and Japan were also lower. No fresh authorisations were made by the EEC, (which authorised grants of Rs.133 crores in 1984-85), Sweden, Switzerland and Canada. On the other hand, authorisations from the Netherlands, the USA and West Germany were marginally higher (Table XI–4).

Utilisation

During 1985-86, loan utilisation at Rs.1,320 crores was Rs.21 crores higher than in the previous year. While the utilisation of project loans showed a decline of Rs.34 crores, those of non-project loans rose by Rs.55 crores. The utilisation of loan assistance from the World Bank group, Canada, the OPEC and Denmark was lower during the year, whereas that from the IFAD, France, Japan, the Netherlands, the USA and the USSR was higher significantly (Table XI–3).

The utilisation of grant assistance which had shown an improvement of Rs.97 crores to Rs.334 crores in 1984-85, declined by Rs.31 crores to Rs.303 crores during 1985-86.

The utilisation of EEC grants was higher by Rs.12 crores, but this was more than offset by a decline in utilisation from the U.K. (by Rs.28 crores) to Rs.199 crores, the Netherlands (by Rs.13 crores), Denmark, Sweden and Switzerland. The U.K. continued to account for the bulk of grant assistance utilised, with a proportion of 66 per cent of the total in 1985-86, as against 68 per cent in 1984-85 (Table XI-4).

Debt Servicing

Debt service payments increased from Rs.785 crores in 1984-85 to Rs.861 crores in 1985-86. The share of amortization continued to rise and reached 59 per cent in 1985-86. The proportion of debt service payments to gross aid utilisation rose significantly from 48 per cent in 1984-85 to 53 per cent during 1985-86 (Table XI–5).

The Aid India Consortium which held its annual meeting in Paris during June 1986, made pledges of external assistance amounting to US.$4.5 billion for 1986-87, marginally higher by US.$0.6 billion than US.$3.9 billion for 1985-86. Of the total pledges of U.S.$4.5 billion for 1986-87, the World Bank Group accounted for US.$2.5 billion including US.$600 million from IDA. Other important contributors were West Germany (US.$ 286 million), Japan US.$285 million), the U.K. (US.$179 million), the USA (US.$152 million) and France (US.$150 million).

Pledges of external assistance for 1986-87 were higher than in the previous year in the case of West Germany (by US.$46 million) and Japan (by US.$107 million). They were somewhat lower in the case of the U.S.A. (by US.$26 million), the U.K. (by US.$7 million) and France (by US.$10 million). It is also expected that aid, particularly from West Germany and the U.K. would be more concessional during 1986-87 than in the previous year.

Cumulative Assistance

The cumulative external assistance authorised to India upto the end of March 1986

Table XI—4: Grants§ Authorised and Utilised during 1984-85 and 1985-86 (Fiscal Years)

(Rupees crores)

Country/Institution	Authorisations		Utilisation	
	1984-85	1985-86*	1984-85	1985-86*
1	2	3	4	5
1. Canada	1	—	—	6
	(1)			(8)
2. Denmark	15	14	13	8
	(17)	(18)	(14)	(10)
3. West Germany	3	6	1	1
	(6)	(13)	(2)	(2)
4. Japan	7	3	6	6
	(16)	(8)	(14)	(16)
5. Netherlands	Neg.	27	30	17
		(53)	(51)	(33)
6. Sweden	12	—	14	12
	(11)		(13)	(13)
7. Switzerland	7	—	5	4
	(18)		(13)	(12)
8. U.K.	314	182	227	199
	(259)	(170)	(188)	(186)
9. U.S.A. other than P.L.480/P.L.665	16	19	6	6
	(25)	(31)	(10)	(10)
10. E.E.C.	133	—	32	44
	(211)		(51)	(72)
Total	**508**	**251**	**334**	**303**
	(564)	**(293)**	**(356)**	**(362)**

Note: Figures in brackets indicate the rupee values at the average annual rates of exchange prevalent during respective years.

* Provisional.

§ Including Debt Relief as under:

(Rupees crores)

Country	Authorisations		Utilisation	
	1984-85	1985-86	1984-85	1985-86
1	2	3	4	5
By way of Grants:				
Japan	—	3.3	—	0.3

aggregated Rs.40,610 crores. Of this, loans amounted to Rs.33,650 crores or 83 per cent of the total, and grants Rs.4,795 crores or 12 per cent of the aggregate asistance. PL 480/665 assistance, accounted for the balance of Rs.2,165 crores (5 per cent) (Table XI-6).

Assistance utilised upto March 1986 amounted to Rs.29,705 crores or about 73 per cent of the total amount authorised. Of the total aid utilised, loans accounted for Rs.23,198 crores (78 per cent) and grants Rs.4,230 crores (14 per cent) and the balance of Rs.2,277 crores (8 per cent) was PL 480/665 assistance.

At the end of March 1986, the share of the World Bank Group in total authorisations was

Table XI-5: Inflow of Foreign Assistance — Gross and Net (Fiscal Years)

(Rupees crores)

Year	Gross Utilisation	Amortisation Payments	Interest Payments	Total Debt Services (3+4)	Net Inflow of Aid (2−5)
1	2	3	4	5	6
1970-71	780	254	158	412	368
1971-72	821	271	175	446	375
1972-73	805	302	177	479	126
1973-74	803	300	184	484	319
1974-75	968	331	181	512	456
	(1,087)	(368)	(201)	(569)	(518)
1975-76	1,436	335	174	509	927
	(1,739)	(427)	(224)	(651)	1,088)
1976-77	1,248	383	187	570	678
	(1,529)	(471)	(242)	(713)	(816)
1977-78	1,076	464	203	667	409
	(1,249)	(561)	(260)	(821)	(428)
1978-79	1,094	479	218	697	397
	(1,332)	(600)	(286)	(886)	(446)
1979-80	1,139	440	238	678	461
	(1,365)	(570)	(301)	(871)	(494)
1980-81	1,351	448	239	687	664
	(1,614)	(569)	(281)	(850)	(764)
1981-82	1,518	477	260	737	781
	(1,857)	(588)	(323)	(911)	(946)
1982-83	1,702	474	292	766	936
	(2,197)	(585)	(360)	(945)	(1,252)
1983-84	1,632	492	283	775	857
	(2,228)	(658)	(424)	(1,082)	(1,146)
1984-85	1,633	457	328	785	848
	(2,348)	(647)	(528)	(1,175)	(1,173)
1985-86§	1,623	508	353	861	762
	(2,495)	(796)	(597)	(1,393)	(1,102)

§ Provisional.

Notes: 1. Gross aid utilisation includes debt relief provided in the form of refinancing credits and grants. Debt service payments in these cases are covered in columns (3) and (4).

2. Figures in brackets indicate the rupee values at the average annual rates of exchange prevalent during respective years.

3. Both amortisation and interest payments exclude payments which are either postponed or rescheduled as under:

(Rupees crores)

Country/ Institution	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78 through 1985-86
1	2	3	4	5	6	7	8	9
1. I.B.R.D.	11	—	—	—	—	—	—	—
2. Canada	1	1	1	1	—	—	—	—
3. Japan	19	15	25	31	25	26	25	—
4. U.S.A.	7	7	—	—	—	—	—	—
Total	**38**	**23**	**26**	**32**	**25**	**26**	**25**	—
				(44)	**(32)**	**(26)**	**(36)**	

Table XI-6: Aggregate External Assistance
(Fiscal Years)

(Rupees crores)

Period	Loans	Grants	P.L.480/665 Aid and Third Country Currency Assistance	Total (2+3+4)
1	2	3	4	5
Authorisations from August 15, 1947				
1. Upto March 1966	5,950	617	1,511	8,078
2. Upto March 1974	11,975	972	2,165	15,112
3. Upto March 1979	18,567	2,583	2,165§	23,315
4. Authorisations during:				
(a) 1979-80	780	432	—	1,212
(b) 1980-81	2,896	125	—	3,021
(c) 1981-82	2,160	218	—	2,378
(d) 1982-83	1,878	322	—	2,200
(e) 1983-84	1,473	356	—	1,829
(f) 1984-85	2,595	508	—	3,103
(g) 1985-86*	3,301	251	—	3,552
Total upto March 1986*	**33,650**	**4,795**	**2,165§**	**40,610**
Utilisation from August 15, 1947				
1. Upto March 1966	4,346	531	1,403	6,280
2. Upto March 1974	10,091	917	2,277	13,285
3. Upto March 1979	14,698	2,132	2,277§	19,107
4. Utilisation during:				
(a) 1979-80	850	289	—	1,139
(b) 1980-81	1,020	331	—	1,351
(c) 1981-82	1,188	330	—	1,518
(d) 1982-83	1,428	274	—	1,702
(e) 1983-84	1,395	237	—	1,632
(f) 1984-85	1,299	334	—	1,633
(g) 1985-86*	1,320	303	—	1,623
Total upto March 1986*	**23,198**	**4,230**	**2,277§**	**29,705**

§ P.L.480 authorisations were fully utilised by the end of 1971-72. The difference between rupee value of total authorisations and total utilisation is attributable to the devaluation of rupee on June 6, 1966.

* Provisional.

Note: Refer to notes to Table XI-2.

about 41 per cent, which was somewhat higher than that of 40 per cent a year ago. The total authorisations by the IBRD/IDA increased from Rs.14,741 crores at the end of March 1985 to Rs.16,791 crores. The utilisation of loan assistance extended by these institutions increased from Rs.8,956 crores to Rs.9,731 crores over the same period and constituted nearly 33 per cent of the aid utilised at end-March 1986, as compared with 32 per cent, a year earlier.

The USA continued to be the second largest contributor both in respect of authorisations and utilisation. Among the other major donors are the U.K., the USSR, West Germany, the Japan and the OPEC Group. These together accounted for nearly one-third of the authorisations as well as utilisation as at the end of March 1986 (Table XI-7).

Table XI—7: Aggregate External Assistance — Source-wise (Upto end-March 1986§§)

(Rupees crores)

Country/Institution	Authorisations				Utilisation			
	Loans	Grants	P.L.480/ 665 Aid and Third Country Currency Assistance	Total (2+3+4)	Loans	Grants	P.L.480/ 665 Aid and Third Country Currency Assistance	Total (6+7+8)
1	2	3	4	5	6	7	8	9
IBRD/IDA	16,791	—	—	16,791 (41.3)	9,731	—	—	9,731 (32.7)
United Nations	—	44	—	44 (0.1)	—	44	—	44 (0.2)
EEC	40§	523	—	563 (1.4)	40§	433	—	473 (1.6)
IFAD	135	—	—	135 (0.3)	71	—	—	71 (0.2)
U.S.A.	4,167	378	2,165	6,710 (16.5)	3,958	290	2,277	6,525 (22.0)
U.S.S.R.	2,814	11	—	2,825 (7.0)	1,449	11	—	1,460 (4.9)
U.K.	1,419	2,313	—	3,732 (9.2)	1,408	1,992	—	3,400 (11.5)
West Germany	1,976	51	—	2,027 (5.0)	1,794	44	—	1,838 (6.2)
Japan	1,215	62	—	1,277 (3.1)	930	56	—	986 (3.3)
OPEC*	1,644	—	—	1,644 (4.1)	1,158	—	—	1,158 (3.9)
Others	3,450	1,413	—	4,863 (12.0)	2,659	1,360	—	4,019 (13.5)
Total	**33,651**	**4,795**	**2,165**	**40,611 (100.0)**	**23,198**	**4,230**	**2,277**	**29,705 (100.0)**

* Comprises Iran, Iraq, Kuwait, Abu Dhabi, Saudi Arabia and OPEC Special Fund.
§ Relates to Special Action Credit.
§§ Provisional.
Notes: 1. Please refer to Notes to Table XI-2.
2. Figures in brackets represent percentage to the total.

As at the end of March 1986, total aid in the pipeline at the current exchange rates worked out to Rs.18,066 crores, higher by Rs.3,353 crores than that at the end of March 1985. Out of this, aid in terms of project loans accounted for Rs.16,958 crores or 94 per cent, non-project loans Rs.364 crores, and grants Rs.744 crores. The assistance in pipeline is significantly large from the World Bank Group, followed at a distance from the U.S.S.R.

IV. India's Financial Assistance to Other Countries

During 1985-86, the Government of India sanctioned financial assistance to four developing countries for an aggregate amount of Rs.124 crores as against Rs.104 crores in the preceding year (Table XI-8). Assistance by way of loans increased by Rs.9 crores to Rs.50 crores and grants by Rs.11 crores to Rs.74

crores. The share of grants in total authorisations continued to be large at 60 per cent. Country-wise, Bhutan accounted for 52 per cent of the total, followed by Nepal, Vietnam and Bangladesh. Assistance to Nepal was more than doubled to Rs.36 crores.

Table XI-8: Assistance Extended by India to Other Countries (Fiscal Years)

(Rupees crores)

Country/ Programme	Authorisations						Utilisation					
	1984-85			1985-86†			1984-85			1985-86†		
	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total
1	2	3	4	5	6	7	8	9	10	11	12	13
1. Bangladesh	—	0.3	0.3	4.1	2.7	6.8	—	0.3	0.3	4.1	2.7	6.8
2. Bhutan	30.3	43.3	73.6	22.3	42.1	64.4	30.3	43.3	73.6	22.3	42.1	64.4
3. Ghana	—	—	—	—	—	—	3.3	—	3.3	1.6	—	1.6
4. Mozambique	—	—	—	—	—	—	0.7	—	0.7	0.3	—	0.3
5. Nepal	—	13.8	13.8	15.0	21.3	36.3	—	13.8	13.8	8.0	21.3	29.3
6. Peoples' Democratic Republic of Yemen	—	—	—	—	—	—	0.6	—	0.6	0.1	—	0.1
7. Seychelles	—	—	—	—	—	—	0.7	—	0.7	—	—	—
8. Sri Lanka	—	—	—	—	—	—	0.5	—	0.5	0.3	—	0.3
9. Tanzania	—	—	—	—	—	—	2.9	—	2.9	0.2	—	0.2
10. Vietnam	10.0	—	10.0	8.1	—	8.1	13.0	—	13.0	12.3	—	12.3
11. Uganda	—	—	—	—	—	—	0.2	—	0.2	0.2	—	0.2
12. Zambia	—	—	—	—	—	—	1.4	—	1.4	—	—	—
13. Zimbabwe	—	—	—	—	—	—	0.1	—	0.1	1.8	—	1.8
14. Assistance under ITEC Programme	—	6.1	6.1	—	8.3	8.3	—	6.1	6.1	—	8.3	8.3
Total	**40.3**	**63.5**	**103.8**	**49.5**	**74.4**	**123.9**	**53.7**	**63.5**	**117.2**	**51.2**	**74.4**	**125.6**

† Provisional.

Notes: 1. Aid to Nepal excludes grant expenditures on Kosi and Gandak Schemes executed by the Bihar Government and the grant expenditure on training of Nepalese scholars in India.

2. Authorisations are net of de-obligation/cancellations.

Utilisation

The utilisation of aid extended by India which increased from Rs.112 crores in 1983-84 to Rs.117 crores in 1984-85, increased further to Rs.126 crores during the year. As in the past, grant assistance authorised during the year to Bhutan, Nepal and Bangladesh was fully utilised. In regard to loans, Nepal and Bangladesh which did not draw on loans during 1984-85, utilised Rs.12 crores of loans during 1985-86. The utilisation of loans by Bhutan, Ghana, Mozambique, Yemen, Tanzania and Vietnam were lower, but loan assistance utilised by Zimbabwe was higher during the year, compared to last year. No loans were utilised by Seychelles and Zambia during the year. Country-wise, Bhutan and Nepal together accounted for utilisation of aid amounting to Rs.93.7 crores (75 per cent of the total), Vietnam, Rs.12.3 crores (10 per cent) and Bangladesh, Rs.6.8 crores (5 per cent). Other recipients of aid were Zimbabwe, Ghana, Mozambique, Yemen, Sri Lanka, Tanzania, Vietnam and Uganda.

Cumulative Assistance Extended by India

Total aid authorised up to the end of March 1986 amounted to Rs.1,510 crores, of which 61 per cent was by way of grants and the balance was loan assistance (Table XI-9). The major beneficiaries were Bhutan (Rs.576 crores), Nepal (Rs.311 crores), Bangladesh (Rs.270 crores) and Vietnam (Rs.116 crores). These four countries together accounted for 84 per cent of total authorisations.

Table XI-9: Aggregate Assistance Extended by India to Other Countries (Upto end-March 1986§)

(Rupees crores)

Country/Programme	Authorisations			Utilisation			Amount undisbursed as at the end of March 1986		
	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total
1	2	3	4	5	6	7	8	9	10
1. Afghanisthan	6.4	—	6.4	6.4	—	6.4	—	—	—
2. Bangladesh	120.4	149.6	270.0	96.6	134.7	231.3	23.8	14.9	38.7
3. Bhutan	120.6	455.4	576.0	120.6	455.1	575.7	—	0.3	0.3
4. Burma	20.0	—	20.0	20.0	—	20.0	—	—	—
5. Ghana	4.9	—	4.9	4.9	—	4.9	—	—	—
6. Kenya	5.0	—	5.0	—	—	—	5.0	—	5.0
7. Indonesia	10.0	—	10.0	10.0	—	10.0	—	—	—
8. Mauritius	19.5	—	19.5	14.5	—	14.5	5.0	—	5.0
9. Mozambique	9.0	—	9.0	7.3	—	7.3	1.7	—	1.7
10. Nepal	41.6	269.3	310.9	34.6	247.5	282.1	7.0	21.8	28.8
11. Peoples' Democratic Republic of Yemen	1.0	—	1.0	1.0	—	1.0	—	—	—
12. Seychelles	1.9	—	1.9	1.9	—	1.9	—	—	—
13. Sri Lanka	69.3	—	69.3	61.9	—	61.9	7.4	—	7.4
14. Tanzania	17.4	—	17.4	14.2	—	14.2	3.2	—	3.2
15. Vietnam	115.7	—	115.7	114.1	—	114.1	1.6	—	1.6
16. Uganda	6.5	—	6.5	2.5	—	2.5	4.0	—	4.0
17. Zambia	10.0	—	10.0	5.8	—	5.8	4.2	—	4.2
18. Zimbabwe	4.9	—	4.9	4.9	—	4.9	—	—	—
19. Assistance under ITEC Programme	—	51.6	51.6	—	51.6	51.6	—	—	—
Total	**584.1**	**925.9**	**1510.0**	**521.2**	**888.9**	**1410.1**	**62.9**	**37.0**	**99.9**

§ Provisional.

Notes: 1. Refer to Notes to Table XI-8.

2. Aid to Bangladesh does not cover the relief goods of the value of Rs.17 crores supplied to that country in 1971-72.

Aid utilised at end-March 1986 was Rs.1,410 crores or 93 per cent of aid authorised. Of the total utilisation, Bhutan, Nepal, Bangladesh and Vietnam accounted for 85 per cent of the total.

As the utilisation of aid during the year exceeded fresh authorisations, aid undisbursed came down from Rs.102 crores at end-March 1985 to Rs.100 crores at end-March 1986.

V. Exchange Rate Developments

There was no change in the exchange arrangement of the rupee during the period under

review, it being linked to a weighted basket of currencies of India's major trading partners, with the pound sterling as the intervention currency. The continued volatility in exchange markets necessitated 156 changes in the rupee-pound parity rates during 1985-86 (April-March) as against 151 changes in the previous year. The number of exchange rate adjustments during April-June 1986 at 34 was lower than 41 in the corresponding quarter of the last year. The revisions in parity rates were the maximum at 17 in the month of April 1985, followed by 16 in September 1985, 15 each in May 1985 and March 1986 and 14 each in July 1985 and January 1986. The parity rates underwent the smallest number of 9 changes in June 1985.

Table XI-10 presents annual average exchange rates of the rupee vis-a-vis the SDR and four major international currencies.

During the year, the rupee depreciated against all the four leading currencies of the world and the SDR. The weakening of the rupee against the SDR and the US dollar has been noticed since 1981-82 and against the Japanese yen since 1983-84. However, the

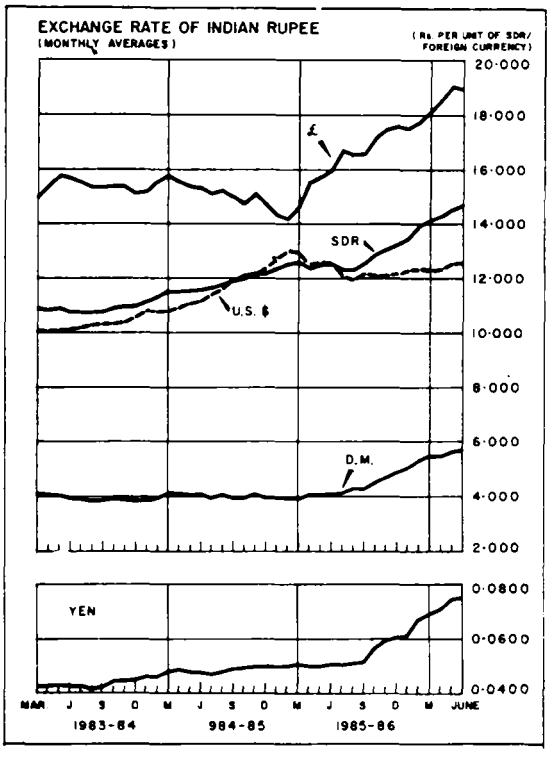


Table XI-10 : Exchange Rate of the Indian Rupee (Annual Average)*

(Rs. per unit of SDR./foreign currency)

April-March	SDR	U.S.$	£	DM	Yen
1980-81	10.1777	7.91	18.50	4.19	0.0364
	(+3.5)	(+2.4)	(−4.5)	(+6.7)	(+9.9)
1981-82	10.3354	8.97	17.11	3.86	0.0394
	(−1.5)	(−11.8)	(+8.1)	(+8.5)	(−7.6)
1982-83	10.5628	9.67	16.14	3.96	0.0389
	(−2.2)	(−7.2)	(+6.0)	(−2.5)	(+1.3)
1983-84	10.9405	10.34	15.42	3.94	0.0438
	(−3.5)	(−6.5)	(+4.7)	(+0.5)	(−11.2)
1984-85	11.9320	11.89	14.87	3.99	0.0487
	(−8.3)	(−13.0)	(+3.7)	(−1.3)	(−10.1)
1985-86	12.9232	12.23	16.85	4.56	0.0562
	(−7.7)	(−2.8)	(−11.8)	(−12.5)	(−13.3)

* Based on monthly averages.

Notes: 1. The SDR rate is as given in the IMF Survey. For the pound sterling, it is the middle rate of the RBI Quotations. For other currencies, the rates are the middle rates on the London market as crossed with the RBI middle rates for the pound sterling.

2. Figures in brackets indicate percentage appreciation (+)/depreciation (−) of the rupee in terms of the SDR/ Currency concerned over the previous fiscal year.

trend of appreciation of the rupee against the pound sterling, which was noticed since 1981-82, was reversed sharply during the year. The rupee weakened for the second successive year against the DM. During the year, the rupee depreciated by 12-13 per cent each against the yen, the DM and the pound sterling, followed by weakening of 7.7 per cent in relation to the SDR and by 2.8 per cent against the US dollar.

In relation to the SDR, the rupee depreciated by 7.7 per cent to Rs.12.92 per SDR during 1985-86 or somewhat less than that of 8.3 per cent in the previous year. In terms of the US dollar, the rupee weakened by only 2.8 per cent to Rs.12.23, as against 13.0 per cent in 1984-85. This was the lowest rate of depreciation of the rupee against the US dollar since 1981-82. The rate of depreciation of the rupee against the Japanese yen increased from 10.1 per cent during 1984-85 to 13.3 per cent in 1985-86; for the year 1985-86 the average rupees per yen amounted to Rs.0.0562. For the last three years the depreciation of the rupee against the yen exceeded 10 per cent per annum. The rupee weakened by 12.5 per cent to Rs.4.56 per DM during 1985-86, as against a marginal depreciation of 1.3 per cent in the previous year. In relation to the pound sterling also, for the first time since 1981-82, the rupee weakened, the rate of depreciation reaching 11.8 per cent to Rs.16.85 per pound during the year, as against the appreciation by 3.7 per cent in the previous year.

Data on monthly average exchange rates of the rupee vis-a-vis the SDR and the four currencies are given in Table XI-11. In relation to the SDR, the rupee ruled easy throughout the year (April-March) with the exception of being marginally firm in April 1985 and July 1985. The average monthly variation ranged from an appreciation of 1.0 per cent in July 1985 to a depreciation of 3.5 per cent in February 1986. Over the year (March 1986 over March 1985), the rupee weakened by 11.6 per cent as against a depreciation of 8.4 per cent in March 1985 over March 1984. Between March 1986 and June 1986, the rupee depreciated further by 3.8 per cent.

The rupee generally firmed up against the US dollar during the year rising up to August 1985 but has weakened thereafter with marginal exception in couple of months. During the year, the rupee appreciated by more than 3 per cent in the months of April 1985 and July 1985. The highest rate of depreciation of 1.3 per cent was noticed in September 1985 the month in which the G−5 agreed to strengthen the yen and the DM against the US dollar. The rupee strengthened by 4.8 per cent in March 1986 over March 1985 in sharp contrast to its depreciation by 16.5 per cent during the corresponding period of the last year. Between March 1986 and June 1986, the rupee depreciated by 2.4 per cent.

The rupee ruled more or less easy against the pound sterling during most of the months with maximum rate of depreciation of 6.5 per cent in the month of April 1985. Only in two months, August 1985 and January 1986, the rupee appreciated marginally. Between March 1985 and March 1986 the rupee depreciated by 19.6 per cent. Over the next quarter — April-June 1986 it depreciated further by 5.1 per cent.

Against the Deutsche Mark, the rupee weakened throughout the year except in May 1985 and September 1985 when it strengthened marginally. Over the year (March 1985 and March 1986) it weakened by 27.8 per cent and particularly sharply during the second half as against an appreciation of 5.9 per cent over the preceeding year. Between March and June 1986 the rupee depreciated by 4.0 per cent.

In relation to the Japanese yen, the rupee continued to rule easy during 1985-86 except in April 1985 and July 1985. In October 1985 and February 1986, it weakened by as much as about 8.5 per cent in each month. As in the case of the DM, the rupee depreciated appreciably against the yen during the second half of the year and by 27.2 per cent between March 1985 and March 1986. During April-June 1986, the rupee depreciated further by 8.6 per cent.

Table XI-11 : Exchange Rate of the Indian Rupee (Monthly Average)

(Rupees per unit of SDR/foreign currency)

Month/Year	SDR	US$	£	DM	Yen
March 1984	11.4369	10.7478	15.6531	4.1404	0.0477
1984-85					
April	11.4598	10.8402	15.4212	4.1016	0.0481
May	11.4805	11.0203	15.3193	4.0115	0.0478
June	11.5311	11.0953	15.2905	4.0508	0.0475
July	11.6008	11.3662	15.0148	3.9924	0.0469
August	11.7594	11.5642	15.1953	4.0099	0.0478
September	11.8678	11.8660	14.9405	3.9265	0.0484
October	11.9842	12.0461	14.7059	3.9279	0.0489
November	12.1136	12.0864	15.0040	4.0373	0.0496
December	12.1602	12.3070	14.6060	3.9681	0.0497
January	12.3075	12.6378	14.2491	3.9872	0.0497
February	12.4422	12.9646	14.1768	3.9301	0.0498
March	12.4861	12.8693	14.4883	3.9093	0.0500
	[−8.4]	[−16.5]	[+8.0]	[+5.9]	[−4.6]
1985-86					
April	12.3762	12.4767	15.4873	4.0437	0.0496
	(+0.9)	(+3.1)	(−6.5)	(−3.3)	(+0.8)
May	12.4205	12.5067	15.6534	4.0321	0.0497
	(−0.4)	(−0.2)	(−1.1)	(+0.3)	(−0.2)
June	12.4236	12.4564	15.9591	4.0684	0.0501
	(—)	(+0.4)	(−1.9)	(−0.9)	(−0.8)
July	12.3007	12.0522	16.6116	4.1403	0.0500
	(+1.0)	(+3.4)	(−3.9)	(−1.7)	(+0.2)
August	12.3613	11.9811	16.5686	4.2878	0.0505
	(−0.5)	(+0.6)	(+0.3)	(−3.4)	(−1.0)
September	12.5183	12.1389	16.5769	4.2833	0.0514
	(−1.3)	(−1.3)	(−0.1)	(+0.1)	(−1.8)
October	12.8114	12.0471	17.1266	4.5574	0.0562
	(−2.3)	(+0.8)	(−3.2)	(−6.0)	(−8.5)
November	13.0535	12.0771	17.4031	4.6585	0.0592
	(−1.9)	(−0.2)	(−1.6)	(−2.2)	(−5.1)
December	13.2483	12.1602	17.5824	4.8408	0.0601
	(−1.5)	(−0.7)	(−1.0)	(−3.8)	(−1.5)
January	13.4767	12.2781	17.4877	5.0329	0.0614
	(−1.7)	(−1.0)	(+0.5)	(−3.8)	(−2.1)
February	13.9637	12.3645	17.6763	5.3041	0.0670
	(−3.5)	(−0.7)	(−1.1)	(−5.1)	(−8.4)
March	14.1238	12.2798	18.0255	5.4145	0.0687
	(−1.1)	(+0.7)	(−1.9)	(−2.0)	(−2.5)
	[−11.6]	[+4.8]	[−19.6]	[−27.8]	[−27.2]
1986-87					
April	14.2647	12.3753	18.5580	5.4632	0.0708
	(−1.0)	(−0.8)	(−2.9)	(−0.9)	(−3.0)
May	14.5909	12.5005	19.0020	5.6101	0.0749
	(−2.2)	(−1.0)	(−2.3)	(−2.6)	(−5.5)
June	14.6783	12.5842	18.9908	5.6366	0.0752
	(−0.6)	(−0.7)	(+0.1)	(−0.5)	(−0.4)

Notes: (i) Figures in brackets indicate percentage appreciation (+)/depreciation (−) of the rupee in terms of the SDR/currency concerned over the preceding month.

(ii) Figures in square brackets for March show appreciation(+)/depreciation(−) of the rupee over the preceding March.

During 1985-86 (April-March), the Rupee-Rouble rate in respect of credit agreements and commercial transactions was changed five times, i.e., on July 13, September 9, November 10, 1985 and January 20 and February 6, 1986. The exchange rate of the rupee, per rouble, as at the end of March 1986 was Rs.12.52 reflecting a depreciation of 9.4 per cent over the end-March 1985 level.

VI. International Monetary Developments

There were two developments of major significance during the period under review. One was the substantial realignment in exchange rates of major currencies reflecting the underlying economic fundamentals, with the Yen and DM appreciating rapidly against the U.S. dollar following the September 1985 meeting of G-5 Finance Ministers. This change indicated prospects of a greater emphasis on exchange rate stability backed up by appropriate policy initiatives. Another development was the crash in oil prices, which for a short period, dropped even below $ 10 per barrel, before recovering to around $ 13-14 per barrel. Thus huge resources got transferred from the oil exporting countries particularly to industrial countries with large oil import bills. The decline in oil prices reduced the pressure on balance of payments of oil importing developing countries while it aggravated the situation of oil exporting countries.

The year 1985 was comparatively disappointing year from the viewpoint of global economic activity and trade. The world output growth fell back to a little less than 3.0 per cent from 4.4 per cent in 1984 while the rate of expansion in trade decelerated from 8.7 per cent to below 3.0 per cent. The current account imbalances among the major industrial countries widened and the deficits of non-oil developing countries also increased somewhat. There was a further improvement on the inflation front with rates of price rise slowing down, both in industrial and developing countries. The fall in oil prices and commodity prices contributed significantly to the outcome of prices. International interest rates in nominal terms declined and provided a measure of relief to the debtor countries, its magnitude depending on the proportion of their debt at variable interest rates.

The hoped for improvement in output growth of industrial countries following the oil price decline is yet to be visible. Positive efforts are necessary to accelerate the economic activity in these countries. Further decline in international interest rates would be helpful in this direction, besides reducing the interest burden on oil exporting debtor countries under pressure from falling oil prices and other developing countries from declining commodity prices. The world trade performance needs to be improved and towards this end the rolling back of protectionism by, and higher output growth in industrial countries would be of major significance. The developing countries should pursue their policies of adjustment; adequate long-term financing needs to be provided to them to support their adjustment efforts.

Domestic Activity

After a strong recovery in 1984, the world economic growth slowed down considerably during 1985; the income growth decelerated from 4.4 per cent in 1984 to 2.9 per cent in 1985. Substantially large downward adjustments occurred in the US and some other industrial countries that had experienced fast expansion in 1984 with the result that industrial countries as a group recorded a growth rate in GNP of 2.8 per cent in 1985 as against 4.7 per cent in 1984. The developing countries also experienced a lower growth of 3.2 per cent in 1985 as against that of 4.1 per cent in 1984. Though the decline in growth rate for developing countries during 1985 was smaller than that for industrial countries, wide disparity in the behaviour of economic activity continued among various groups of developing countries.

Industrial Countries

Practically all the major industrial countries, except the UK where the growth rate improved from 2.5 per cent in 1984 to 3.3 per cent in 1985,

recorded deceleration in the growth rate, the most significant being in the US, where it came down from 6.5 per cent in 1984 to 2.2 per cent in 1985, a level even below the average growth rate of 2.7 per cent recorded in 1968-77. The slowdown in activity by 0.3 to 0.6 percentage point each in Canada, Japan, France, Germany, Italy and other industrial countries (as a group) was relatively modest. While in the case of the US, a slowdown in the pace of growth may be understandable in view of the rapid growth experienced by the country during the preceding two years, for the majority of industrial countries it implies that the remaining slack in labour market will be taken up only very slowly. A few months back, following the crash in oil prices, the outlook for 1986 looked to be relatively encouraging as compared to 1985, with world output and output in industrial countries projected to rise by 3.1 per cent and 3.0 per cent, respectively, as against 2.9 per cent and 2.8 per cent, respectively in 1985. As in 1984, in 1986 also, the engine of growth may be the US aided by West Germany. According to the IMF, the economies of the US and West Germany might grow by 2.9 per cent and 3.7 per cent, respectively, in 1986 as against 2.2 per cent and 2.4 per cent, respectively, in 1985. France is also expected to double its growth rate from 1.1 per cent in 1985 to 2.4 per cent in 1986. More recent developments in output growth in some countries are discouraging and the hopes for improvement in economic activity may be delayed.

The slowdown in output in industrial countries during 1985 was mainly due to contraction in domestic demand. In industrial countries as a group, the real domestic demand grew in 1985 only by 2.8 per cent as against that of 5.1 per cent in 1984. Consumer expenditure expanded by 2.9 per cent, almost the same rate as in 1983 and 1984, but the growth in gross fixed investment declined from 9.0 per cent in 1984 to 5.2 per cent in 1985, and that of stock-building from 1.3 per cent in 1984 to (−)0.6 per cent in 1985. The IMF expects the average growth rate of industrial countries to rise very slowly in 1986 and even in 1987. The average growth rate is projected to increase by one percentage point to 3.0 per cent in 1986 and to 3.2 per cent in 1987. Even this modest recovery would not be evenly distributed among the major industrial countries. While the US, France and Germany might show improvement in growth rates, Canada, Japan, Italy, the UK and other industrial countries might record a slowdown in growth rate in 1986. This is because the external environment has been more unfavourable during the current recovery than previously, particularly with respect to trade. There has been a downward shift in the rest of the world's demand for industrial countries' exports partly because of fall in commodity prices and oil prices.

The sharp break in output in industrial countries in 1985 also meant a slowdown in the creation of job opportunities. Thus, employment in 1985 grew only by 1.4 per cent as against 2.0 per cent in 1984. Some marginal improvement in growth of employment to 1.5 per cent is expected in 1986, at the same average rate as during 1968-77. Though the continuation of employment growth in 1986 and 1987 would arrest the rise in joblessness that had persisted in most European countries throughout the period of recovery, the average unemployment rate is unlikely to be reduced more than marginally over the next two years. Recorded unemployment is expected to remain close to the current level of 11.2 per cent in Europe, to 7.6 per cent in seven major industrial countries and to 8.1 per cent in all other industrial countries.

Inflation in industrial countries has continued its downward trend. Having declined from 9.3 per cent in 1980 to 4.3 per cent in 1984, the weighted average of inflation rates in industrial countries — as measured by changes in the GNP deflator — fell further to 3.9 per cent in 1985. It is expected that the inflation rate would decline further to 3.4 per cent in 1986 and 3.0 per cent in 1987. Lower oil prices is one of the major reasons for the continued optimism on the price front. Adoption of cautious monetary policies by the central banks in the industrial countries and the targets that have been announced by them for monetary aggregates im-

ply that the price situation would not be a problem. Further, wage increases are likely to remain moderate because of the persistence of high unemployment rates; raw material prices have also continued to be weak and are not expected to recover more than partially in 1986 and 1987. Inflation (as measured by consumer price index) in the industrial countries has eased considerably further in the first quarter of 1986, continuing a decline begun in the third quarter of 1985. Prices rose at an average annual rate of 3.2 per cent in the first quarter, compared with 4.3 per cent in the first quarter of 1985. This was the lowest quarterly annual rate of increase since the fourth quarter of 1967.

Since the beginning of the 1980s, the principal objective of monetary policy in major industrial countries has been to reduce inflation and inflationary expectations. This objective was sought to be achieved by setting progressively lower target growth rates for monetary aggregates. In 1985, however, the rate of growth of narrow money in the seven major industrial countries accelerated to 8.5 per cent compared with 6.4 per cent during 1984, while that of broad money rose to 8.9 per cent, 1.2 percentage point above the previous year's rise. For 1986, the United States has announced a 4.7 per cent growth range for M_1, 6-9 per cent range for M_2 and similar range for M_3. In France, the growth range for M_3 has been set at 3-5 per cent. The Federal Republic of Germany has raised slightly the target range for the growth of central bank money from 3-5 per cent in 1985 to 3.5-5.5 per cent in 1986. In the United Kingdom, a target range of 11-15 per cent has been set for sterling M_3.

For some years, industrial countries have been pursuing tight fiscal policies. In 1985, however, the combined fiscal deficit of the major industrial countries at the central government level to GNP ratio increased marginally to 5.4 per cent in relation to 5.1 per cent in 1984. The budgetary position (fiscal balance of central government in relation to GNP) of the US deteriorated in 1985 to 5.9 per cent from 4.9 per cent in 1984, and the rise offset a small decline in the composite fiscal deficit of the other six major industrial countries. Outside the United States, the moderate composite swing towards restraint in 1985 was largely due to developments in Japan and the Federal Republic of Germany. In Japan, the negative impulse came to a considerable extent from the revenue side of the account, reflecting mainly the built-in elasticity of the tax system, whereas in the Federal Republic of Germany the decline in the fiscal deficit was due mainly to a fall in public investment outlays and restrained growth of social transfers. In France, the central government deficit as a percentage of GDP is estimated to have been marginally reduced from 3.4 per cent in 1984 to 3.3 per cent in 1985 owing mainly to restraints on increases in both employment and real wages in the government sector, as also to deceleration in the growth of social security transfers and subsidies. In the United Kingdom, the government deficit decreased moderately as a result of a sharper deceleration in the growth of government spending. Italy was the only major European country in which the fiscal deficit widened substantially in 1985. For 1986, a further contractionary impulse is indicated. In the United States, the Federal government budget deficit would decline by about 1 percentage point to 4.8 per cent of GNP in 1986 mainly due to cuts in spending and reduction in interest rates. The other countries where budget deficit (in relation to GNP) would decline by percentage point or more in 1986 are Canada and Italy. While in Canada, deceleration of expenditure growth will result mainly from cuts in Federal government employment and payment of unemployment insurance benefits, in Italy the budget deficit would be reduced because of a faster growth of revenue than the expenditure.

The continuing decline in overall inflation rates in industrial countries has facilitated a fall in nominal interest rates. Factors contributing to the decline in nominal U.S. dollar interest rates include, besides falling inflation, the slow revival of economic activity, increasing confidence that lower inflation would persist, better prospects for a durable improvement in the fiscal position of the US government and the

growing belief that the Federal Reserve would allow lower interest rates. The easing of interest rates was also a feature of monetary developments in most other industrial countries.

Short-term interest rates fell significantly in several of the major industrial countries during 1985. In the United States these rates fell approximately by 3.5 percentage points from their 1984 peak, in the face of a deceleration of output growth and a continued low rate of inflation. Interest rates also fell quite sharply in France, the Federal Republic of Germany and Italy — by 1.8 percentage points to 9.9 per cent in France, by 0.6 percentage points to 5.4 per cent in Germany and by 2.2 percentage points to 14.9 per cent in Italy. In the United Kingdom, however, the base lending rate was raised by 4.5 percentage points in early 1985 with a view to halting the continuous depreciation of the sterling. Subsequently, base rates declined gradually during the year as sterling gained strength on the foreign exchange markets. In late 1985 and early 1986, however, sterling again came under pressure, triggering a renewed rise of 1 percentage point in the base lending rate in January 1986. In Japan, short-term interest rates were stable at their 1984 level for the first nine months of 1985 but rose by 1.75 percentage points from September to December.

The first three months of 1986 witnessed further significant reductions in short-term interest rates in most of the major countries in response to significant changes in the pattern of exchange rates and to the continued improvement in the outlook for inflation stemming from the sharp drop in oil prices. In the Euro-dollar markets the LIBOR lending rate which in July 1984 had reached 12.7 per cent, gradually declined to 8.1 per cent in the first week of January 1986 and further to 7.0 per cent in June 1986.

Developing Countries

The growth rate in developing countries declined from 4.1 per cent in 1984 to 3.2 per cent in 1985. The deceleration was the most significant for the fuel-exporting countries, down from 1.2 per cent in 1984 to (−)0.1 per cent in 1985 reflecting mainly weak oil prices. For the non-fuel exporters, the growth declined from 5.5 per cent to 4.8 per cent partly because of fall in commodity prices. For the exporters of manufactures, the growth rate slowed down from 8.3 per cent to 6.6 per cent and that of mineral exporters from 4.1 per cent to 0.9 per cent. Region-wise, for the developing countries of Asia, the growth rate decelerated from 7.9 per cent in 1984 to 6.1 per cent in 1985, while for developing countries of Europe, the growth rate was 2.5 per cent and that of Middle East (−)1.6 per cent.

The fuel exporting countries have been the most adversely affected by recent trends in external demand . In 1985, real export earnings of these countries fell by 8 per cent and were only 5 per cent above the level reached before the second round of oil price increases. In the case of non-fuel exporting countries, the real export earnings dropped to only 2 per cent. The overall growth of GDP in developing countries would have been substantially affected by the weak external demand, but for a strengthening of domestic demand.

The outlook for 1986 is also not very rosy. Despite the projected upturn in the income growth of industrial countries, particularly the US, West Germany and France, the developing countries' growth rate is estimated by the IMF at 3.0 per cent for 1986 which is even lower than that recorded in 1985.

Inflation remained a serious problem in the developing world in 1985 as well. The inflation rate as measured by the weighted average of consumer prices in developing countries was 39 per cent in 1985 as against 37 per cent in 1984, reflecting primarily the very high rates of price increase in developing countries of the Western Hemisphere. Inflationary pressures in developing countries of other regions have been less severe; in fact, most countries experienced a moderation of price increases in 1985. As for example, the inflation rate (weighted average of consumer prices) in Africa de-

clined from 19.8 per cent in 1984 to 13.6 per cent in 1985 and that in Asia from 7.1 per cent in 1984 to 6.7 per cent in 1985. In developing countries of Europe and Middle East, the inflation rate was stable at around the 1984 levels.

The IMF has projected a further softening of inflation rate throughout the developing world in 1986. It expects a little more than halving of the inflation rate (to 76 per cent) in the Western Hemisphere in 1986 whereas in other regions the inflation rate is likely to decline by 10-20 per cent.

Use of Fund Resources

The use of Fund resources declined for the second consecutive year. Total purchases by members which had come down by 42 per cent to SDR 7.3 billion in 1984 decreased further by 45 per cent to SDR 4.0 billion in 1985. At this level, gross drawings were less than one-third of the record level of SDR 12.6 billion reached in 1983. In contrast to the fall in drawings, repurchases continued to rise and were SDR 3.6 billion in 1985 as against SDR 2.3 billion in 1984 and SDR 2.0 billion in 1983. Thus, the net purchases from the Fund by the member countries amounted to just SDR 0.4 billion during 1985, the lowest since 1980 — as against SDR 5.0 billion in 1984.

The pattern of use of Fund resources in 1985 was not much different from that noticed in earlier years. The bulk of the drawings in 1985 (SDR 2.6 billion or 66 per cent) were under conditional facilities like credit tranche, and the EFF (SDR 0.4 billion); drawings under the CFF which are relatively less conditional amount to SDR 0.9 billion. In 1984, the corresponding levels were: credit tranche (SDR 3.1 billion), EFF (SDR 3.3 billion) and the CFF (SDR 0.8 billion) thus the drawings dropped sharply under the EFF during 1985. There were no drawings under the BSFF for the second successive year. The Reserve tranche drawings which are unconditional fell in 1985 to SDR 0.2 billion from SDR 0.8 billion in 1984.

During the first half of 1986 (January-June) total drawings were SDR 1.7 billion, slightly lower than those of SDR 1.9 billion, during the same period of 1985. On the other hand, repurchases were significantly higher at SDR 2.6 billion as against SDR 1.7 billion in 1985, thus resulting in net repurchases of SDR 0.9 billion in the first half of 1986 as against net drawings of SDR 0.2 billion during the first half of 1985 (Table XI-12).

The countries which made purchases of more than SDR 100 million under the Stand-by arrangements were Bangladesh, Jamaica, Korea, Morocco, Thailand, Yugoslavia, and Uruguay in 1985 and Cote d'Ivoire (Ivory Coast), Zaire and Zambia during the first half of 1986. Only Chile made purchases under CFF of more than SDR 100 million in 1985.

Rate of Charge

The rate of charge on the use of the Fund's ordinary resources which was raised from 7.00 per cent to 7.87 per cent per annum for the second half of the Fund's fiscal year 1985-86 (from November 1, 1985 to April 30, 1986) was lowered to 7 per cent per annum retroactively from November 1, 1985 and further to 6 per cent per annum with effect from May 1, 1986. The decision to reduce the rate was taken in the light of an improvement in the Fund's net income position reflecting a decline in the SDR interest rate, the discharge of overdue obligations, and lower administrative expenses. The rate of charge on drawings outstanding under other Fund facilities is indicated in the Table XI-13.

Till recently, interest on overdue repurchases/repayments continued to bear the regular charges applicable in respect of relevant purchases/loans, but no charges were levied on overdue charges/interest payments. In order to compensate the Fund for the financial costs arising from members' failure to make payments on time, the Fund instituted effective February 1, 1986, a system of levying special charges on late payment of obligations. A special charge on overdue repurchases of ordinary resources only would be applied when the SDR interest rate is greater than the rate of charge.

Table XI-12: Fund Purchases and Repurchases

(Billion SDRs)

			January-June	
	1984	1985	1985	1986
1. Total Purchases[1]	7.3	4.0	1.9	1.7
Of which:				
Credit Tranche[2]	3.1	2.6	1.0	1.4
Extended Fund Facility	3.3	0.4	0.3	0.1
Compensatory Financing Facility	0.8	0.9	0.6	0.1
Buffer Stock Financing Facility	—	—	—	—
2. Total Repurchases	2.3	3.6	1.7	2.6
3. Net Purchases	5.0	0.4	0.2	(−)0.9‡

1. Excludes purchases under the reserve tranche.
2. Includes purchases under stand-by arrangements.
‡ Repurchases exceed total purchases.
– Negligible.

Table XI-13: Rate of Charge

(Per cent per annum)

Fund Facility	1985		1986
	1st half	2nd half	1st half
1. Supplementary Financing Facility			
(a) for less than 3½ years	11.075	9.825	8.075
(b) for more than 3½ years	11.200	9.950	8.200
2. Policy on Enlarged Access to Fund's resources	10.160	9.280	8.310

The rate of special charge to be imposed on overdue repurchases would be equal to the difference between the SDR interest rate and the rate of charge on ordinary resources. The actual rates to be charged would vary any time with movements in the SDR rate of interest. The special charge on the account of overdue interest on Trust Fund loans would be at a rate equal to one-half of the sum of the rate of interest on Trust Fund loans and the rate of interest on the SDR. The special charge on the overdue amounts of repayments of Trust Fund loans would be equal to one-half of the sum of the rate of interest on Trust Fund loans and the rate of interest on the SDR, less one-half per cent.

Policy on Enlarged Access to Fund Resources and Limits to Special Facilities

During 1985, members' access to Fund resources under the *enlarged access policy* was reduced to annual limits of 95 per cent or 115 per cent of quota, three-year limits of 280 per cent or 345 per cent of quota, and cumulative limits of 408 per cent or 450 per cent of quota, net of scheduled repurchases, from annual limits in 1984, of 102 per cent or 125 per cent of quota, three year limits of 306 per cent or 375 per cent of quota, and cumulative limits of 408 per cent or 500 per cent of quota. During 1984, the access under *CFF/Cereal Facility* had been reduced from 100 per cent of quota to 83 per

cent with threshold for lower tranche for CFF being retained at 50 per cent of the quota; the combined limit was correspondingly reduced from 125 per cent of the quota to 105 per cent. The limit under the BSFF had been also reduced from 50 per cent to 45 per cent. These limits remained unchanged during 1985.

The Interim Committee discussed in its Seoul meeting held in October 1985 the question of the Fund's policy on enlarged access and the limits on access to the Fund's resources in 1986. The Committee recognised that, in view of the uncertainties that remained in the world economy and the serious payments difficulties that many member countries continued to face, there was a need to continue the enlarged access policy, with only modest adjustments for the coming year. Accordingly, Fund Board took the decision where under the access limits for 1986 were fixed as follows:

a) Access under the enlarged access policy in 1986 would be subject to annual limits of 90 or 110 per cent of quota, three-year limits of 270 or 330 per cent of quota and cumulative limits of 400 or 440 per cent of quota, depending on the seriousness of the balance of payments need for the member country and the strength of its adjustment effort and b) the present access limits under the special facilities would be retained.

The decision is to be reviewed before the end of 1986 in the light of all relevant factors including the magnitude of a member's payments problems and developments in the Fund's liquidity position.

Structural Adjustment Facility (SAF)

At its meeting in October 1985 in Seoul, Korea, the Interim Committee had agreed that the Trust Fund resources amounting to about SDR 2.7 billion should be used to provide additional balance of payments assistance on concessional terms to the low-income countries then eligible for IDA resources that face protracted balance of payments problems and are in need of such assistance.

The Executive Board has accordingly established a Structural Adjustment Facility (SAF) that will provide balance of payments assistance in the form of loans to eligible members that present medium-term macroeconomic and structural adjustment programmes intended to overcome protracted balance of payments problems and foster growth. Of the 60 eligible countries, China and India had already indicated in the Interim Committee meeting in October that they would not avail of the facility, thus leaving the total resources of the Structural Adjustment Facility available to other eligible countries.

An eligible member seeking to use resources of the Facility will develop a policy framework describing the member's medium-term objectives and the main outline of the policies to be followed in pursuing these objectives. This medium-term policy framework will be developed jointly with the Staff of the Fund and the World Bank and will embody the general outlines of a three-year adjustment programme including structural measures and delineation in broad terms of the expected path of macroeconomic policies. The framework will contain an assessment of the country's financing needs and possible sources of finance to support comprehensive economic programmes, including indicative levels of financing from the Structural Adjustment Facility and the World Bank Group.

Members qualifying for the use of the Structural Adjustment Facility can expect to receive an amount initially calculated at the equivalent of 47 per cent of their quota in the Fund, over three years. This level of disbursement has been fixed on the assumption that the present arrears of the Trust Fund loans would be settled and future obligations would be paid on time. The amount of Trust Fund reflows available for disbursement by the end of 1988 was estimated at SDR 1974.8 million (including interest on existing SDA investments). On approval by the Fund of a three-year arrangement in support of a member's structural adjustment programme, the member would have a commitment of resources to be made available in the

form of loans under three annual arrangements. Upon approval of the annual arrangement for the first year, the Fund would disburse to the member the equivalent of about 20 per cent of the member's quota in the Fund. Two additional tranches, initially calculated at the equivalent of about 13.5 per cent of the member's quota in the Fund, would be disbursed on approval of the subsequent annual arrangements. These percentages will be determined periodically with a view to their possible enlargement.

Interest will be charged at the rate of ½ of 1 per cent per annum on outstanding balance, payable semi-annually. Repayment of each loan under the Structural Adjustment Facility will be made in ten equal semi-annual instalments starting five and a half years, and finishing ten years, after the date of the disbursement.

The SDR will be the unit of account for commitments, loans and all other operations under the Facility. Loans will be disbursed and repaid in U.S. dollars; arrangments may also be made for use of SDRs in the disbursements and payments of interest and principal.

The Fund will review the operation of the Structural Adjustment Facility not later than May 31, 1988.

SDR Allocation and SDR Interest Rate

The SDRs were allocated for the first time in 1970. Since then there were two annual allocations during the first basic period and three annual allocations during the third basic period: totalling SDR 21.4 billion. The second remained empty. The fourth basic period which began on January 1, 1982 and is scheduled to end on December 31, 1986. The question of allocations of SDRs in the fourth basic period was discussed on several occasions by the Interim Committee and the Executive Board. No consensus could be reached because the U.S., the U.K., Germany and Japan remained unconvinced of the need for allocations.

The question of an SDR allocation in the fifth basic period was discussed in April 1986 meeting of the Interim Committee and, as in the earlier years, no decision was taken this time also since the requisite majority for the allocation of SDRs was not forthcoming. The Interim Committee, however, urged the Executive Board to continue its discussions on the role of the SDR in the present international monetary system and on allocation of SDRs and report to them the progress made in this regard at their next meeting. The Managing Director, IMF has since informed the Board of Governors and the Executive Board of the IMF that he was not in a position to make by June 30, 1986 a proposal for an allocation of SDRs for the fifth basic period and that he would submit a proposal for allocations of SDRs in the fifth basic period as soon as he reached the conclusion that there was a broad support for the proposal.

The interest rate to be paid to holders of SDRs, and charges payable by the participants on cumulative allocation of SDRs, continued to be set at 100 per cent of the weighted-average interest rates of the chosen short-term instruments of the five countries whose currencies comprise the SDR valuation basket. The rate of remuneration to be paid by the Fund on a member's remunerated position with the Fund was set at 90.0 per cent of the rate of interest on holdings of SDR for the period February 1, 1985 to April 30, 1985, at 91.66 per cent for the period May 1, 1985 to July 31, 1985, at 93.00 per cent for the period August 1, 1985 to January 31, 1986 and lower at 92.00 per cent for the period February 1, 1986 to April 30, 1986. However, the same was increased to all time high level of 97.49 per cent for the period May-October 1986.

The quarterly rate of interest of SDR and the rate of remuneration for some recent quarters are presented in Table XI-14.It would be seen therefrom that the interest rates show a declining trend owing to a fall in international rates.

Valuation of SDRs

Effective January 1, 1981, the valuation of SDRs is done on the basis of a basket of currencies of largest members of the Fund. The composition of the basket, and the weights of the currencies in the basket reflect the relative importance of these currencies in international trade and finance during the relevant period, and are based on the value of the exports of goods and services of the members issuing these currencies and the amounts of their currencies officially held by members of the Fund during the five-year period preceding the valuation.

As per the decision of the Fund, the valuation basket of the SDR was revised with effect from January 1, 1986, and is to be revised on the first day of each subsequent five-year period. Though the list of currencies in the SDR valuation basket remains the same, there is a slight revision in the weight of the yen at the cost of the French franc and the Pound sterling; the details are given below.

Currency	Old Basket		New Basket	
	Currency Units	Weight (in per cent)	Currency Units	Weight (in per cent)
U.S. dollar	0.54	42	0.452	42
Deutsche mark	0.46	19	0.527	19
Japanese yen	34.00	13	33.4	15
French franc	0.74	13	1.02	12
Pound sterling	0.071	13	0.0893	12

Table XI-14: SDR Interest and Remuneration Rates‡

(Per cent per annum)

For the quarter ended	SDR interest rate	Rate of remuneration
June 1985	7.95	7.24
September 1985	7.44	6.89
December 1985	7.55	7.02
March 1986	7.26	6.70
June 1986	6.31	6.01

‡ Effective August 1, 1983 both SDR interest rate and remuneration rate are being set on a weekly basis. The figures given above are averages of weekly rates.

International Reserves

In 1985, the international non-gold reserves (foreign exchange, SDRs and reserve position in the Fund) declined slightly by SDR 2.2 billion or by 0.54 per cent to SDR 403.6 billion. This was in sharp contrast with the rapid expansion of reserves in 1983 (by 10 per cent or SDR 33 billion) and in 1984 (by 12.5 per cent or SDR 45 billion). As the foreign exchange constitutes the bulk of international reserves (more than 80 per cent of the total non-gold reserves), the decline in reserves reflected, in main, the valuation changes, following the depreciation of U.S. dollar vis-a-vis the SDR. Component-wise, while the holdings of foreign exchange reserves declined by SDR 1.1 billion to SDR 346.7 billion and that of reserve position in the Fund by SDR 2.9 billion to SDR 38.7 billion, holdings of SDRs increased by SDR 1.7 billion to SDR 18.2 billion. However, the shares of the three components in total non-gold reserves remained roughly unchanged at end-1984 proportions with foreign exchange constituting 85.9 per cent (85.7 per cent at end-1984), reserve position in the Fund, 9:6 per cent (10.3 per cent at end-1984) and SDRs, 4.5 per cent (4.0 per cent at end-1984).

The entire fall in the total non-gold reserves was on account of developing countries whose reserves declined by SDR 9.5 billion or 5.7 per cent to SDR 155.8 billion in 1985, in contrast to a significant rise of SDR 20.5 billion in 1984. On the other hand, non-gold reserves of industrial countries whose reserves have been continuously increasing since 1983 increased further by SDR 2.8 billion to SDR 227.3 billion in 1985. Consequently, their share in total reserves increased from 57.6 per cent in 1984 to 59.3 per cent in 1985, and that in foreign exchange holdings from 55.4 per cent in 1984 to 57.2 per cent in 1985.

Among the developing countries, the non-oil developing countries mainly in Asia and the Western Hemisphere bore most of the brunt of fall in reserves as their total reserves fell by SDR 9.2 billion to SDR 88.0 billion in 1985. However, developing countries in Africa,

(mainly Algeria, Botswana and Ghana) recorded handsome gains with their total reserves rising by SDR 1.6 billion or by 25 per cent to SDR 8.2 billion in 1985. While total reserve holdings of developing countries in Europe showed a little or no change in 1985 as compared to their position in 1984, those of developing countries in Middle East declined by SDR 0.9 billion to SDR 57.4 billion in 1985.

Of the decline of SDR 9.5 billion in total non-gold reserves of developing countries, the bulk (SDR 9.0 billion) was accounted for by foreign exchange reserves. This was mainly due to a fall in net borrowings from private creditors. While the current account deficit of developing countries as a group in 1985 was almost at the same level as in 1984, net borrowings of capital importing developing countries from private creditors fell from a little more than $13 billion in 1984 to less than $11 billion in 1985. The developing countries in Asia and Western Hemisphere were the worst sufferers having lost foreign exchange of SDR 5.7 billion and SDR 4.6 billion in one year. The developing countries in Africa, however, regained, to some extent, the ground lost in 1982-84, as they reported an increase of SDR 1.7 billion in their foreign exchange holdings in 1985.

The Fund-related reserve assets of all countries which had increased by SDR 4.5 billion to SDR 58 billion in 1984 declined by SDR 1.1 billion to SDR 56.9 billion in 1985. This decline was mainly accounted for by a fall in the reserve position in the Fund of SDR 2.8 billion to SDR 38.7 billion, offset by a rise in SDR holdings by SDR 1.7 billion to SDR 18.2 billion. The increase in SDR holdings and decrease in reserve position in the Fund was shared both by the industrial and developing countries. Among the industrial countries, it was the USA which had mainly reported an increase in SDR holdings and a fall in reserve position in the Fund alongwith West Germany and the UK. Despite these changes, industrial and developing countries continued to hold, respectively, 70 per cent and 30 per cent of total Fund-related reserve assets as at the end of 1985.

The decline witnessed in the non-gold reserve assets in 1985 continued in the first quarter of 1986, and as at March end 1986, the reserves of all countries stood at SDR 390.1 billion, lower by SDR 13.5 billion as compared to December 1985 level. The decline was mainly because of fall in reserves of developing countries as they accounted for more than two-thirds of the total contraction in reserves.

International Trade and Payments

Reflecting the weakness of output trends in 1985, the world trade expanded by only 2.9 per cent in volume, with exports of industrial countries rising by 3.9 per cent and those of developing countries by 0.4 per cent only. Exports of non-fuel exporters increased by 3.4 per cent. A source of concern in this respect has been the effect of protectionism in industrial countries on developing countries' ability to increase their export earnings. Many of the most dynamic exports of developing countries are increasingly being constrained by such restrictions.

The volume of imports of industrial and developing countries grew in 1985 by rates lower than those in 1984, i.e., by 5.2 per cent and (−) 0.3 per cent, respectively. The weakness of imports among developing countries is distributed unevenly. Region-wise, the countries in Africa, Middle East and Western Hemisphere suffered declines in imports to the tune of 5.2 per cent, 11.4 per cent and 1.3 per cent, respectively.

The volume of world trade during 1986 is, however, estimated to accelerate to 3.3 per cent. The export volume growth of developing countries is expected to improve to 3.8 per cent in 1986, as against a deceleration in respect of industrial countries, to 2.7 per cent from 3.9 per cent in 1985. However, the growth would be distributed rather unevenly among the various country-groups. Among the developing countries, the agricultural exporters should achieve only below average volume growth, while the mineral exporters should experience a negative growth rate. The largest increases will probably once again be found among the exporters of manufactures. The increase (from a(−) 4.1 per cent growth in 1985 to a positive growth of 2.6 per cent in 1986) projected for the fuel exporters reflects both a significant expansion in non-oil exports of some of these countries and a moderate recovery in the volume of their oil exports as world oil demand begins to rise at a slightly more rapid rate.

As regards imports, while imports of industrial countries are projected to grow by 5.0 per cent in 1986 as against the growth rate of 5.2 per cent in 1985, growth prospects for imports in developing countries are forseen to be dismal. The stagnation in 1986 is due entirely to the expected further decline (−15.1 per cent) in imports of the fuel exporters, and especially the capital exporting sub-group among them. For the non-fuel exporting countries, however, a positive import growth rate of about 5 per cent is projected.

The merchandise terms of trade for developing countries deteriorated by about 2 per cent during 1985. The terms of trade of fuel-exporting countries, which import relatively few primary commodities, deteriorated by 4 per cent, reflecting mainly the change in the price of oil relative to that of manufactures. The non-fuel exporting countries — which export a large amount of manufactures and benefit from the lower oil prices — however, experienced a much smaller deterioration in their terms of trade of just over 1 per cent. Within the group of non-fuel exporting countries, the largest deterioration in terms of trade was concentrated in countries that export predominantly primary commodities. The terms of trade of these countries deteriorated by 3.2 per cent. By contrast, exporters of manufactures, which are significant importers of both oil and other primary products, experienced virtually no change in their terms of trade for the second year in succession.

Non-oil commodity prices turned out to be much weaker in 1985 than had been generally expected. These prices declined by some 12 per cent in terms of US dollar. Available indicators suggest that the increase in supplies of non-oil commodities in 1984 and 1985 were particularly large. The increase was especially pronounced among agricultural crops, which, in many parts of the world, had benefited from good weather (until the impact of the drought on coffee output in Brazil). Trade barriers and the associated price support policies of industrial countries were other factors which exerted a depressing influence on the international prices of trade commodities. This is a particularly serious problem for agricultural commodity exporters. For example, sugar producing countries, and especially those for which sugar is a monoculture, have been severely affected by protection of domestic sugar producers in the European Community and the United States.

World oil prices also declined in 1985, although, on an annual average basis, by considerably less than the average price of non-oil primary commodities. However, early in 1986, oil prices began to fall sharply, and by the second quarter of the year (1986) were as much as 50 per cent below their 1985 levels. The fall in oil prices has important implications for international trade and payments in 1986 in that it would affect the oil importers and oil exporters

differently. While the oil importing countries would stand to gain by the fall in oil prices in their terms of trade to the extent of nearly $ 90 billion per year, the fuel exporting developing countries would be the loser to the same extent. As a consequence, while there would be a strengthening of domestic demand in oil importing countries, oil exporting countries would face the prospects of cutting down expenditures, both in Government and private sectors. Overall, the developing countries' terms of trade would deteriorate by abouf 12 per cent in 1986. The bulk of this drop would be experienced by the fuel exporters, which would incur a 37 per cent deterioration in their terms of trade.

The terms of trade of industrial countries on the other hand, which had deteriorated somewhat in 1984 showed signs of improvement in 1985 and are expected to improve by 6.7 per cent in 1986. A substantial rise in prices (in US dollar terms) of manufactures (their main export item) coupled with a significant fall in prices of oil (their main import item) are the important factors for this improvement.

As a result of the high rate of growth in imports relative to exports, the current account deficits (including official transfers) of the industrial countries as a group, which had shot up to $ 64.1 billion in 1984 declined to $ 54.2 billion in 1985.

The current account position of industrial countries, however, continued to present a divergence between the large deficit of the US and the large surplus of Japan. This divergence, which had emerged in 1982 and had increased in 1983 and 1984, has continued in 1985. The growing US current account deficit since 1982 has led to a marked change in the international investment position of the US. In 1984 and early 1985, lending abroad by US banks went down sharply, while both direct and portfolio financial inflows to the US increased substantially. As a result, by early 1985, the US had become a net debtor to the rest of the world (a position which it still continues to hold) from a net creditor position of $ 150 billion in 1982.

The current account (including official transfers) of industrial countries is estimated to show a net surplus of $ 13.5 billion in 1986 after a gap of seven years, mainly because of an improvement in the trade balance and payments position on services account. This improvement in payments position would be offset only to some extent by increased grants on private account. The current account deficit of the USA would also show a decline and Japan and Germany would continue to experience increased surpluses. However, the US would continue to be a net taker of new international banking funds.

The combined current account deficit of developing countries (including official transfers) which had declined from $ 58.9 billion in 1983 to $ 35.1 billion in 1984 fell only marginally to $ 34.1 billion in 1985; relative to imports their exports fell more sharply . The current account deficit of capital importing countries increased by $ 4.2 billion to $ 26.8 billion in 1985 mainly due to an increase in imports and a fall in exports. Similarly, the current account deficit of non-oil developing countries increased from $ 25.0 billion in 1984 to $ 28.7 billion in 1985, again due to an increase in imports and fall in exports.

The current account deficit of developing countries is expected to soar to around $ 70 billion in 1986 — a level that is almost 50 per cent higher than that prevailed in 1985. The deterioration in current account balance is brought about mainly by higher imports relative to exports. The net outgo on services account is likely to be somewhat lower. However, the interest payments are likely to show a slight increase.

The current account deficit would, as in earlier years have to be financed mainly with the help of external borrowings. The non-debt creating flows (mainly official transfers and direct investment flows) are not expected to show any perceptible increase, while the use of Fund credit would show a decline. With the commercial banks adopting lukewarm attitude towards developing countries, net external borrowings from private creditors would amount to about $ 14 billion. There are three principal reasons for not eliciting a greater response from private creditors. First, creditors remain skeptical about the ongoing commitment of national authorities to sound financial and market-oriented structural adjustment policies. Second, the process of rebuilding creditor confidence in any case takes time. Third, some of the creditworthy debtor countries may now be averse to both the cost and risks associated with market sources of finance.

Resource flows

The flow of total external resources (at 1984 prices and exchange rates) to the developing countries, which has been declining since 1982 contracted further by $ 3.0 billion to $ 80.0 billion in 1985. Between 1981 and 1985, the resource flows to developing countries have contracted by $ 58.6 billion or by more than 40 per cent. The decline in aid flows was accounted for mainly by export credits and private flows, with ODA and grants by private voluntary organisations showing some increases. The net effect of changes in the composition of assistance was that the share of total export credits in total resource flows declined from 6.5 per cent in 1984 to 3.8 per cent in 1985 and that of private flows was reduced to 36.2 per cent in 1985 from 36.4 per cent in 1984. However, the share of Official Development Finance (ODF) increased from 57 per cent in 1984 to 60 per cent in 1985 and that of ODA from 41.7 per cent in 1984 to 44.0 per cent in 1985. The fall in the share of export credits in total resource flows in 1985 was mainly because of the sharp decline in the contribution of OECD countries which was nearly halved to $ 2.6 billion. Similarly, the fall in private flows was attributable to the decrease in direct investment from OECD countries whose share in total flows had declined from 12.5 per cent in 1984 to 10 per cent in 1985. There was also a fall in the flow of new international banking funds which had declined approximately by 25 per cent to $ 13.0 billion, but this contraction was more than offset by borrowing in the international bond market with the result that there was only a nominal increase of $ 0.2 billion in the flow of funds from the international banking and financial markets.

The total flows of the ODA which increased from $ 34.6 billion in 1984 to $ 35.2 billion in 1985, were still well below the level of $ 37.7 billion reached in 1980. The increase in the ODA in 1985 was mainly from the DAC countries, reflecting largely the response by the DAC members to the special problems of Sub-Saharan Africa, both in the form of emergency aid and assistance to help African countries in their structural adjustment efforts. Though the ODA flows from the DAC countries showed an increase in 1985 in absolute terms, in relation to GNP, the proportion was reduced marginally to 0.35 per cent in 1985 from 0.36 per cent in 1984. While the contribution of the U.S.A., the main donor, remained unchanged at 0.24 per cent of its GNP for the second successive year, that of Japan -- the second largest donor — declined from 0.34 per cent in 1984 to 0.29 per cent in 1985. There were only five countries — Denmark, France (DOM/TOM aid included), the Netherlands, Norway and Sweden which had exceeded the target of 0.7 per cent of their GNP as aid (Table XI-15).

The flow of resources from the OPEC countries continued to decline. In absolute terms, net ODA disbursement fell to $ 3 billion in 1985 (according to preliminary estimates) as compared to $ 4.5 billion in 1984 and $ 5.0 billion in 1983. In relation to GNP, these aid disbursements dropped from 0.83 per cent in 1984 to 0.56 per cent in 1985. The trend of falling aid disbursements from the OPEC countries has been noticed for the fifth successive year. Resource flows from Saudi Arabia fell from $ 3.2 billion in 1984 to $ 2.2 billion in 1985, and in

Table XI-15: Official Development Assistance — Performance of Donor Countries

Countries showing an increase of ODA as % of GNP	1984	1985	Countries showing decrease of ODA as % of GNP	1984	1985
Australia	0.45	0.49	Belgium	0.57	0.53
Austria	0.28	0.38	Canada	0.50	0.49
Finland	0.36	0.39	Denmark	0.85	0.80
France (Inc.DOM/TOM)	0.77	0.79	Italy	0.33	0.31
France (Excl. DOM/TOM)	0.52	0.54	Japan	0.34	0.29
Germany	0.45	0.47	Netherlands	1.02	0.91
Ireland	0.22	0.24	Norway	1.03	1.00
Sweden	0.80	0.86			
Switzerland	0.30	0.31			
United Kingdom	0.33	0.34			
Countries showing no change					
New Zealand	0.25	0.25			
United States	0.24	0.24			

Source: OECD Press Release.

relation to GNP from 3.2 per cent to 2.3 per cent. Net disbursements from Kuwait also declined, from $ 1 billion in 1984 to $ 0.7 billion in 1985, and in relation to GNP from 3.8 per cent in 1984 to 2.7 per cent.

CMEA countries' net aid disbursements continued to be around $ 3 billion, or 0.21 per cent in relation to GNP, for the fifth successive year.

Developments in Exchange Rates of Major Currencies

The international exchange markets continued to remain volatile during 1985-86 as in 1984-85. The year 1985-86 witnessed the turnround in movements of the US dollar rate in relation to several major currencies. The fall in the US dollar became more pronounced after the September 1985 agreement among G-5 Ministers to strengthen major currencies particularly the yen and the DM. The latter two currencies continued to maintain their strong profiles in exchange markets bolstered by large current account surpluses. The pound sterling also appreciated steadily against the dollar.

The *US dollar* after appreciating consecutively for four years depreciated significantly against major currencies, beginning in March 1985. For the twelve months through March 1986 the depreciation amounted to almost 25 per cent in nominal effective terms. The currencies which appreciated most against the US dollar were the yen, the Deutsche mark,and the French franc. While the effective rates of the Japanese yen rose by 24 per cent, that of the DM and the French franc rose by 13 per cent each. The pound sterling, however, appreciated by only 2 per cent. The main reasons for the turnround in the external value of the dollar were: (1) The persistent rise in the U.S. dollar was proving problematical for the U.S. authorities in the context of a large and rapidly growing U.S. deficit on trade and current accounts. While it was making US exports non-competitive and imports for other countries costlier it was also providing additional force to the protectionist tendencies in the United States. (2) The short-term interest rate differentials generally had moved against dollar-denominated assets from August 1984 through January 1985. (3) The growth of narrow monetary aggregates in the US had accelerated considerably beginning in November 1984 and by March 1985 they had moved outside the target range. (4) There were also reports of a slowing down of real economic growth in the U.S.

Thus, with a view to pushing down the external value of the dollar, the Finance Ministers and Central Bank Governors of the five major industrial countries decided in mid-January 1985 to intervene in the foreign exchange market and sell substantial amounts of US dollar. However, this action of the G-5 did not yield the desired results, for, from March through August 1985, though the US dollar depreciated by 19 per cent against the DM and by 9 per cent against the Japanese yen, the two currencies were still well below their average levels of the preceding decade in real terms. Thus, renewed efforts were made at the meeting of the G-5 in New York on September 22, 1985 to lower the exchange rate of the dollar. It was announced that a further appreciation of the non-dollar currencies against the dollar would be desirable, inasmuch as it was thought that the current levels did not fully reflect changes in policy and in underlying economic conditions that had already taken place or that were in prospect. Consequently the Group of Five countries — in cooperation with the other countries constituting the Group of Ten (Italy, Canada, the Netherlands, Belgium, Sweden and Switzerland) — undertook sizeable coordinated intervention in foreign exchange markets throughout the remainder of the year. Thereafter, the U.S. dollar depreciated sharply against all other major currencies.

The falling trend in the US dollar has continued in the following months also. During the three month period April-June 1986, the US dollar has eased further by nearly 3 per cent against the pound sterling, by nearly 2 per cent against the DM, by nearly 1 per cent against the Canadian dollar, and by over 6 per cent against the yen. It has, however, firmed up somewhat against the French franc.

The *Japanese yen* which had appreciated against the US dollar and had depreciated against other major currencies, viz. the DM, the pound sterling and the French franc during April-June 1985 continued to rise against the US dollar regaining its historical peak of October 1978 (corresponding to a rate of 176 yen per dollar) in the middle of March 1986. Over the year, on a monthly average basis, while the Japanese yen had appreciated by nearly 45 per cent againt the US dollar, by over 10 per cent against the pound sterling and by about 7 per cent against the Italian lira it had depreciated marginally by about 1-2 per cent each against the French franc, the DM and the Swiss franc. In nominal effective terms, the yen had gained over 24 per cent during the period under review. The strength of the yen during the year may be attributed to (a) strong pressures to reverse undervaluation of the yen, (b) a high rate of economic growth, (c) a low inflation rate, and (d) increased trade and current account surpluses which were bolstered by falling oil prices, particularly during the first quarter of 1986.

During the three month period ending June 1986, the yen has appreciated against all major currencies including the DM, the French and the Swiss franc against which it had declined earlier. During April-June 1986 the yen appreciated by over 6 per cent against the US dollar, by over 5 per cent against the DM, by over 6 per cent against the Canadian dollar, by nearly 9 per cent against the French franc, by over 6 per cent against the Italian lira, by nearly 3 per cent against the Swiss franc, and by nearly 4 per cent against the pound sterling.

As against the previous year's weak trend, the *Deutsche mark* (DM) ruled firm during 1985-86 (April-March) against almost all major international currencies, particularly the US dollar. Over the year, the DM appreciated by over 46 per cent against the US dollar, by over 11 per cent against the pound sterling, by over 8 per cent against the Italian lira and by over 48 per cent against the Canadian dollar. The rise against the yen and the French franc was nominal, of the order of one per cent each. In nominal effective terms, the DM strengthened by nearly 13 per cent during the year. The dominant factors which contributed to the strength of the DM were the same as for yen namely (i) pressure to reverse undervalued DM, (ii) a high rate of economic growth, (iii)a low rate of inflation, and (iv) increased current account surpluses.

During April-June 1986, the DM evinced a mixed trend. While it continued to appreciate against US dollar and French franc by nearly 2 per cent and over 3 per cent, respectively, it depreciated by nearly 2 per cent against pound sterling and by over 5 per cent against Japanese yen.

During 1985-86 the *pound sterling* showed a mixed trend. It appreciated by nearly 31 per cent against the US dollar, but depreciated by 9-10 per cent each against the yen, the DM and the French and the Swiss francs. However, in nominal effective terms, the pound sterling appreciated only by about 2 per cent. The steep rise in the pound sterling vis-a-vis the US dollar can well be attributed mainly to favourable interest rate differentials. The weakness of the pound sterling against the other major international currencies (excepting dollar) is attributed to (i) declining oil prices in the world market (UK is one of the main oil exporting countries); (ii) the deteriorating economic prospects for UK following a slump in crude oil prices from December 1985; and (iii) the upward movement of labour costs in the UK following considerable increases in wages in the face of declining rates of growth in productivity.

During April-June 1986, the pound sterling strengthened against almost all currencies barring Japanese yen. It gained nearly 3 per cent against US dollar, nearly 2 per cent against DM, nearly 5 per cent against French franc and over 2 per cent against Italian lira but weakened against the Japanese yen by nearly 4 per cent.

As in the last year, the *French franc* showed a mixed trend during the period under review. It strengthened substantially by over 45 per cent against the US dollar and by nearly 11 per cent against the pound sterling. However, it eased by nearly 1 per cent each against the DM and the yen. In nominal effective terms, the French franc had appreciated by a little over 13 per cent.

During April-June 1986, however the French franc weakened against all major currencies. It depreciated by nearly 5 per cent against pound sterling, by over 3 per cent against DM, by over 8 per cent against the Japanese yen and by nearly 2 per cent against US dollar.

Gold in International markets

Gold prices in London market ruled generally firm during 1985-86 (April-March). The price of gold which ruled at $ 329.25 per fine ounce as at end-March 1985 declined to $317.75 by end-June 1985. During the next two months, the gold price rose to $ 335.25; the increase in gold prices was due to the depreciation of the US dollar against other major currencies. However, the gold prices declined to $ 325.75 in September and ruled around this level till December 1985 mainly due to the industrial strike in South African mines as also because of reports that Saudi Arabia may cut its oil selling price. The gold prices spurted to $ 350.50 in January 1986 — a gain of $ 23.50 in one month — following reports of strained relations between the US and Libya and economic sanctions imposed by the US against Libya, the civil war in South Yemen and the rumours that a single customer of a London Bullion house had bought gold worth over $ 1 billion. However, the rise in gold prices proved short-lived and prices declined once again in February 1986 to $ 338.15 due to a fall in oil prices and the concern about the inability of the OPEC to control it. As at the end of March 1986, gold prices stood at $ 344.00, showing a gain of $ 14.75 or 4.5 per cent between March 1985 and March 1986.

During the first quarter (April-June) of the financial year 1986-87, gold prices ruled steady, but the undertone was firm. As at the end of June 1986, gold prices at $ 346.75 per fine ounce were higher by $ 2.75 or by 0.8 per cent over the end-March 1986 level. The movements in the price of gold in international markets are discussed in detail in Chapter VI of the Report.

World Bank Group

The World Bank's operations in fiscal 1985 (July-June) included, among other things, con-

tinuation of its programme of structural adjustment lending designed to help the developing countries to implement the policy of institutional reform, and Special Action Programme (SAP) for increasing the flow of assistance to countries faced with exceptionally difficult economic environment due to global recession. With a view to stimulating foreign investment in developing countries,the World Bank decided to set up the Multilateral Investment Guarantee Agency (MIGA). This agency will be issuing long-term guarantees against non-commercial risks surrounding foreign investment. The convention establishing the MIGA was approved by the World Bank's Board of Governors at their Annual Meeting in Seoul on October 11, 1985. The convention will come into force upon ratification by 5 capital exporting and 15 capital importing member-countries, whose total subscriptions amount to at least $ 360 million. The U.S. formally signed the convention on June 18, 1986. With the U.S. approval of the MIGA agreement, 23 developing nations and five industrial countries including Britain, Italy, the Netherlands and Canada would become members of the new Bank affiliate. The developing countries that have approved the MIGA charter include South Korea, Turkey, Egypt, Saudi Arabia, Colombia, Bolivia, Ecuador and a number of African countries. India, however, has opted to remain outside the Agency among others on the ground that it was incompatible with national legislation.

As regards financial operations during the year 1984-85 (July-June), lending commitments by the World Bank-International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) totalled $ 14.4 billion. However, this amount was lower by $ 1.1 billion or by 7.3 per cent as against an increase of equal magnitude in 1983-84. Disbursements by the IBRD and the IDA, however, totalled $11.1 billion — same as in 1983-84. The net transfer of resources by the IBRD and the IDA combined was $ 4.7 billion during 1984-85 as compared with the total of $ 5.2 billion for 1983-84. For those projects for which total costs can be calculated, the IBRD and the IDA assistance provided about 38 per cent of the total funds required. While there was a rise in disbursements by the IBRD, those by the IDA showed a fall for the second year in succession. The institution-wise details are given below:

Table XI—16: Loans by the World Bank

($ Million)

	IBRD		IDA		World Bank	
	1983-84	1984-85	1983-84	1984-85	1983-84	1984-85
1. Lending Commitments	11,947	11,358	3,575	3,028	15,522	14,386
	(7.3)	−(5.0)	(7.0)	−(15.3)	(7.2)	−(7.3)
2. Disbursements	8,580	8,645	2,524	2,491	11,104	11,136
	(25.9)	(0.7)	−(2.8)	−(1.3)	(18.0)	(0.3)

Note: Figures within brackets show percentage change over the previous year.

Loans and credits extended to developing countries by the World Bank in the fiscal year ended June 30, 1986, totalled about $ 16.3 billion compared with $ 14.4 billion in fiscal year 1985. Loan commitments by IBRD totalled $ 13.2 billion, while IDA credits amounted to $ 3.1 billion. In addition, commitments from the Special Facility for Sub-Saharan Africa, which has now completed its first full year of operation, totalled $ 782 million. The Africa Facility is administered by IDA. There has been a major emphasis in the lending by the

Bank and IDA to support countries undertaking major programmes of structural and sectoral reforms.

International Bank for Reconstruction and Development (IBRD)

The number of operations approved by the IBRD increased marginally from 129 in 1983-84 to 131 in 1984-85. While loans sanctioned declined in absolute terms by $ 0.5 billion to $ 11.4 billion in 1984-85, disbursements increased marginally by $ 65 million to $ 8.6 billion.

As in the previous year, India, Brazil and Indonesia continued to be the largest borrowers accounting for about 36 per cent of the total loan approvals. These three countries together with China, Turkey and Colombia accounted for 55 per cent of the total loan approvals.

Fresh loans sanctioned to India during 1984-85 remained stagnant at $ 1.7 billion or the same as in the preceding year. India was followed by Brazil and Indonesia with loans sanctioned totalling $ 1.5 billion and $ 0.9 billion, respectively. Project-wise, more than one-half of the total loans sanctioned to India was for the development of energy ($ 974 million) followed by industry ($ 300 million), agriculture and rural development ($ 200 million) and transportation (development of highways) ($ 200 million).

Since July 1982, IBRD loans which hitherto were made at fixed rates of interest have been made at variable rates. The lending rate on all loans made under the variable rate system is adjusted semi-annually, on January 1, and July 1, by adding a spread of 0.50 per cent to the IBRD's weighted average cost of borrowing. The variable lending rate has steadily declined from 11.43 per cent when it was introduced in July 1982. The lending rate was fixed at 9.89 per cent on July 1, 1984. This had been reduced as on July 1, 1985 to 8.82 per cent. From January 1, 1986 it was 8.5 per cent and was reduced further to 8.23 per cent from July 1, 1986. This is the eighth consecutive reduction since July 1982.

In August 1984, there was a selective capital increase of $ 8.4 billion in the IBRD's authorised capital. The closing date for the subscription period is December 31, 1986. A total capital of $ 4.6 billion was subscribed to during the fiscal 1985. Of this, $ 3.8 billion was the result of subscription authorised by the general capital increase approved in January 1980. As on June 30, 1985, the IBRD's subscribed capital was $ 58.8 billion (SDR 58 9 billion).

The Special Action Programme initiated in 1983 to assist countries trying to cope up with exceptionally difficult situations was reviewed in March 1985 and the Scheme was found to have facilitated completion of 260 priority projects supporting a total investment of $ 50 billion by ensuring timely availability of financial resources. Incremental disbursements to forty-four recipient countries on account of this programme during the fiscal 1984-86 are estimated to be about $ 4.5 billion.

The IBRD continued to implement its programme of structural adjustment lending (SAL) during the fiscal 1985. During the year, 31 operations were approved in support of adjustment programmes in 17 countries — six in Sub-Saharan Africa, three in East Asia, five in Latin America, two in Southern Europe and one in South Asia — for a total of more than $ 4.5 billion.

The International Development Association (IDA)

The IDA commitments at $ 3.0 billion during 1984-85 were lower by $ 547 million or by 15.3 per cent in contrast to an increase of 7 per cent ($ 234 million) during the previous year. Disbursements of the IDA also declined, for the second year in succession, by $ 33 million to $ 2491 million during 1984-85.

Although India was the largest recipient of IDA credits, sanctions to India fell by $ 328 million to $ 673 million. Proportionately,

India's share in the total sanctions declined from 28.0 per cent in 1983-84 to 22.2 per cent in 1984-85. Besides India, China and Bangladesh were the large recipients. While credits sanctioned to China rose by $ 18 million to $ 442 million these declined by $ 127 million to $ 266 million in the case of Bangladesh.

In January 1984, contributions to the seventh replenishment of IDA resources (IDA-7) were fixed at $ 9 billion; 25 per cent or $ 2.25 billion were to come from the USA. During the fiscal 1985, the IDA received notifications of participation in the Seventh replenishment of its resources from a number of countries, representing about 86 per cent of contributions to IDA-7.

The World Bank announced on July 19, 1986 that the eighth replenishment of IDA (IDA-8) will be of the level of $ 11.5 billion. The U.S. commitment is likely to be larger than its commitment of IDA-7. A minimum of 45 per cent of the total funds would be allocated to Sub-Saharan Africa and India and China, the two large recipients, would share 30 per cent of IDA-8.

The Special Facility for Sub-Saharan Africa

The World Bank Report "Toward Sustained Development in Sub-Saharan Africa: A Joint Programme of Action" published in September 1984, had called for the creation of a special assistance facility in support of reform programmes undertaken by African Governments. In February 1985 an agreement was reached between the Bank and the 14 developed countries on the mobilisation of additional resources of $ 1.1 billion to be committed over a three-year period in Special Facility Operations. The Special Facility could be funded either through direct contributions from donors or through resources for joint-financing with the Special Facility. As on June 30, 1985, the resources expected for Special Facility operations totalled over $ 1.2 billion. The Special Facility began its operations on July 1, 1985 after notifications of contributions totalling $ 255 million had been received from five countries.

Funds from the Special Facilities are to be used to provide "African Facility Credits" to IDA-eligible countries in Sub-Saharan Africa that undertake appropriate medium-term programmes of policy reforms. IDA has been authorised to act as an administrator of and to accept contributions to the facility. The African Facility Credits, will be made on current IDA terms — 50 year maturity, including a ten-year grace period and an annual 0.75 per cent of service charge and a yearly 0.50 per cent of commitment charge. Although most African Facility Credits will be co-financed with the IDA, the Facility is not precluded from financing projects on its own.

The International Finance Corporation (IFC)

During 1984-85 (July-June), investments of the IFC were stepped up and the fall in investments noticed during the previous year was reversed. Investments of the IFC accelerated by 35 per cent, and in absolute terms, rose by $ 241 million to $ 937 million. Of the total, $ 875.9 million was for loans and $ 61.3 million for equity or equity-like investments. Of the latter, $ 7.4 million was approved for the exercise of rights issues by firms in which the IFC already has equity investment.

An equivalent of $ 266.4 million was disbursed against committed loans and equity investments during the year. Of this, $ 240.4 million was for loans and $ 26.0 million for equity. In addition, $ 84.0 million was disbursed for participants in IFC financing which the Corporation manages. Total disbursements of $ 350.4 million were $ 30.5 million smaller than the previous year. Sales from the portfolio and repayments to the IFC and participants amounted to $ 260.2 million so that net disbursements totalled $ 90.2 million.

The number of projects approved also rose from 62 to 75 in 1984-85. These 75 projects approved were located in 38 countries and in one region (Africa). In one of these, namely China, the IFC was investing for the first time and in five countries, the IFC had not undertaken any investment during the last 3 years Of

the total approved investments of $ 937 million, 33 (with a total value of $ 259 million, or 28 per cent) were located in countries with per capita income of less than $ 805. The IFC's investments in India, however, came down from $ 43.7 million in 1983-84 to $ 34.7 million in 1984-85.

Agribusiness continued to account for an increasing proportion of the number of investments. The 13 agribusiness projects approved accounted for about 17 per cent of total approvals. Eight of these ventures were in low income countries. The sectors, besides agribusiness, in which investments were mainly undertaken by the IFC during the year were: shipping, minerals, petrochemicals, pulp and paper, oil and gas and cement.

During the year, the IFC introduced the variable lending rates. The agreed rates ranged from 125 to 275 basis points over six month LIBOR or its equivalent in addition to appropriate levels of front-end and commitment fees. Over 20 per cent of the loans approved were priced at variable rates.

In December 1984, the Board of Directors had given its approval to the Corporation to raise $ 100 million from private capital markets. By the end of May 1985, the Corporation had carried out two $ 50 million fixed rate borrowings.

During the year, 104 member countries representing 70.6 per cent of the total voting share and 82 per cent of membership ratified the Board of Governor's resolution of June 21, 1984 proposing to double the Corporation's authorised shares from 650 thousand shares to 1300 thousand shares.

Africa Project Development Facility

A new initiative to help develop private enterprises in Sub-Saharan Africa has been launched by the IFC. The Africa Project Development Facility will help African entrepreneurs and companies to develop sound investment projects and to find finance for them.

The Facility is established in response to the desire of many Sub-Saharan African countries to enhance the role of the private sector in their economies. It will help identify small and medium-sized projects, and to secure financing in amounts ranging from $ 0.5 million to $ 5 million. It will assist African businessmen in formulating and screening project ideas and in providing consultants and technicians to promote and implement projects.

Advice will also be provided to African entrepreneurs interested in acquiring local companies from foreign shareholders or acquiring parastatal enterprises which member countries wish to privatise. The Facility will help identify and obtain personnel and select project partners and sources of equity and loans. Also, it will advice foreign investors or financial institutions in search of investment opportunities or potential business partners in Africa.

The Facility is sponsored jointly by the IFC, the United Nations Development Programme, and the African Development Bank. A fund of $ 15 million will be provided by the three sponsors and 12 donor nations. The IFC will manage the Facility and post two teams of experts in Nairobi, Kenya, covering the Eastern and the southern Africa, and in Abidjan, Cote d'Ivoire covering the Western and the Central Africa.

External Debt of Developing Countries

The overall external debt of capital importing developing countries (i.e. all developing countries except the eight Middle Eastern Oil Exporting Countries, namely, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia and the United Arab Emirates) was a staggering US $ 888 billion at end 1985 as compared to US $ 841 billion at end 1984 and US $ 399 billion seven years ago at end 1978.

According to the preliminary estimates made by the U.N. Economic Commission for Latin America and the Caribbean (CEPAL), Latin America's total external debt amounted to US $ 368 billion as at the end of 1985. Of this,

85 per cent was accounted for by 6 Latin American countries as detailed below:

Country	External debt outstanding as at the end of 1985 (Billion U.S. $)
1. Brazil	102
2. Mexico	98
3. Argentina	50
4. Venezuela	30
5. Chile	20
6. Peru	14
a) Total for 6 countries	**314**
b) Total for all countries	**368**

The international debt of capital importing countries is likely to cross the US $ 900 billion mark and reach $ 943 billion by end 1986, while the interest payment obligation of these countries is estimated to be around US $ 73 billion.

External debt as a percentage of exports of goods and services which had declined from 158.8 per cent in 1983 to 152.8 per cent in 1984 rose again to 163.0 per cent in 1985, to scale a new peak. Similarly, the ratio of external debt to GDP also increased from 35.9 per cent in 1983 to 36.8 per cent in 1984 and further to 38.1 per cent in 1985.

The small low-income countries had the highest debt ratio, but the Western Hemisphere, which is mostly middle income, also recorded a high debt ratio – 295 per cent. Both groups have experienced above average increases in their debt ratios since 1978.

Again, debt-service ratio of capital importing countries which had fallen from 23.6 per cent in 1982 to 22.0 per cent in 1983 rose to 22.9 per cent in 1984 and went up further to 24.1 per cent in 1985.

According to the Fund staff estimates, although the debt ratio, debt service ratio and ratio of external debt to GDP would increase marginally during 1986 for the capital importing countries as a group, these ratios would rise further for countries in Africa and Asia. The capital importing fuel exporters (Algeria, Bahrain, Congo, Ecuador, Gabon Indonesia, Mexico, Nigeria, Syria, Trinidad and Tobago, Tunisia, and Venezuela) and net oil exporters (Bahrain, Bolivia, Congo, Ecuador, Egypt, Gabon, Malaysia, Mexico, Peru, Syria, Trinidad and Tobago and Tunisia) would be the worst sufferers because in their case the debt ratio would rise by 67 percentage points to 255.7 per cent and by 39 percentage points to 274.0 per cent, respectively as against an increase of 3.6 percentage points for all the capital importing countries as a group.

With a view to helping the developing countries to tide over their difficulties, the U.S. Secretary of the Treasury, Mr. James A. Baker, proposed a debt plan at the annual meetings of the Fund/World Bank in October 1985. The U.S. debt initiative also known as the 'Baker Plan' places the objective of increased growth at the centre of the debt strategy. According to the Baker Plan, there are following three mutually reinforcing elements in the U.S. debt strategy:

1. Debtor countries needed to implement macroeconomic and structural policies designed to promote growth, to encourage external adjustment, and to reduce inflation.

2. The Fund should continue to play a central role in managing the debt problem, while the role of multilateral development banks and, in particular, the World Bank should be enhanced by increased and more effective structural adjustment lending. It was suggested that annual disbursements from the World Bank and the Inter-American Development Bank to principal debtor countries should, over the period 1986-88, rise by about 50 per cent from the projected rate of $ 6 billion a year. The World Bank's role in stimulating private lending to developing countries would also be enhanced, while the operations of both the Multilateral Investment Guarantee Agency and the International Finance Corporation would assist in attracting non-debt-creating capital flows to these countries.

3. Additional net lending from commercial bank sources was needed to underpin sound economic policies. On the basis of an indicative group of 15 countries, a figure of $ 20 billion for such new lending was suggested for the period 1986-88, which would represent an increase of 2½–3 per cent a year in outstanding commercial bank claims. In addition to the provision of net new loans of the group of 15 countries, it was expected that banks would continue to provide, on a spontaneous basis, adequate net new lending to countries receiving bank financing, provided that these countries maintained sound policies. It was also expected that banks would consider lending to other developing countries experiencing debt-servicing problems that might require relatively small amounts of commercial bank financing under adjustment programmes supported by the Fund and the Bank.

The U.S. debt strategy was welcomed by the international community — the Fund, the World Bank and the commercial banks — but not much headway is reported to have been made in its actual implementation.

The latest strategy to solve the debt problem was spelled out by the inter-governmental Group of Twenty-Four on International Monetary Affairs in their meeting held on April 6, 1986 in Washington. The Group, *inter alia*, made the following recommendations.

1. The flow of resources abroad from developing countries need to be reversed. New financial support at low and stable real interest rates and extension of the repayment terms and grace periods should be obtained and debt servicing should be related to export receipts.

2. The resource needs for a general capital increase of the World Bank, as well as for replenishments of IDA and regional development banks' funds should be reviewed in accordance with the proposals and criteria put forward by the Group of Twenty-Four.

3. The developed countries should redouble their efforts to expand ODA flows. The imbalance between the needs of low-income countries and the availability of IDA resources be redressed during the Eighth Replenishment.

4. The IMF must seriously consider putting in place adequate resources to deal with medium-term balance of payments problems in developing countries and revitalise the use of the EFF.

5. A new credit facility in the IMF (or expansion of the CFF) with additional resources, need to be established to alleviate the debt service burden caused by real interest rates that are higher than the normal historical levels.

6. The Fund together with other multilateral institutions should develop new mechanisms to help those countries which, because of adverse exogenous factors are not able to repay their obligations to these institutions according to a fixed schedule.

7. For countries heavily indebted to the international banking system, the possibility of differentiating existing debt from new credit flows should be explored for the purpose of determining interest payments.

8. In his recent paper entitled "Transfer of Resources to Developing Countries" Mr. Dragoslav Avramovic, however, has suggested that the quickest, most efficient and probably the only way of providing the required resources while preserving creditworthiness of debtor countries is through *special issues* in favour of developing countries *of SDRs* over the next two years. The amount indicated for the first year is US $ 25-30 billion; the second year requirement should be determined in the light of circumstances. This two-year period should be used for organising a concerted long-term approach to the debt problem and a recovery programme in Africa, and for elaboration of longer-term

arrangements for assuring a larger supply of official development assistance to all countries of low incomes, engaged in development efforts. No significant inflationary effects of such special SDR allocation should be feared, in view of the existing surplus capacity in major sectors of the world economy and falling or depressed prices in the international prices of most products.

VII. Developments in Exchange Control

Exports to Pakistan & Afghanistan

In pursuance of the recommendations of the Patwardhan Committee on Exports and Imports (a reference to which was made in the last year's Report) the Government of India enhanced the period prescribed under Rule 8 of the Foreign Exchange Regulation Rules, 1974, for realisation of full export proceeds in respect of shipments made to Pakistan and Afghanistan from 3 months to 6 months from the date of shipment, with effect from 1st October 1985.

Forward Exchange Cover

With a view to enlarging the scope and coverage of some of the existing facilities as also exploring the possibility of introducing forward cover facilities in respect of some newly emerging business activities, the Reserve Bank has introduced a number of changes in the package of forward cover facilities with effect from December 28, 1985 and issued necessary instructions to authorised dealers. The following are the new areas where forward cover facilities have been introduced for the first time.

i) Roll-over forward cover for repayment of foreign currency loans.

ii) Cross-currency forward cover for payments towards imports financed out of foreign currency loans where the goods are invoiced for payment in a currency/currencies other than the currency of the loan.

iii) Cross-currency forward cover in respect of repayment instalments of a loan obtained in one foreign currency by an Indian airline or shipping company for acquisition of aircrafts/ships from out of revenue earnings in other foreign currencies.

iv) Forward cover for the charter hire payments by Indian airlines and shipping companies/shippers.

v) Forward cover for remittance of technical know-how fees.

vi) Forward cover for remittance of erection and commissioning charges.

vii) Forward cover for retransfer abroad of funds temporarily brought to India by Indian companies/firms executing turnkey/civil construction/service contracts abroad.

Returning Indians Foreign Exchange Entitlement Scheme (RIFEES)

With effect from December 26, 1985, the limit for the foreign exchange entitlement under the Returning Indians Foreign Exchange Entitlement Scheme for non-residents of Indian nationality or origin returning to India for permanent settlement has been enhanced from 25 per cent to 50 per cent of the total amount of foreign exchange repatriated to India by the applicant, and balances held in his NRE/FCNR Accounts.

Foreign Travel Under Special Travel Scheme

The following changes have been made in the Foreign Travel Scheme (FTS) and the Neighbourhood Travel Scheme (NTS) with effect from April 7, 1986.

i) The eligibility to travel under the FTS as well as the NTS will be once in three calendar years instead of once in two calendar years. Thus, a resident will now be eligible to travel under the FTS, if he has not travelled to any foreign country under the

Scheme since the commencement of the preceding two calendar years. Travel under the NTS will now be permissible in blocks of three calendar years, the first triennium being 1st January 1985 to 31 December 1987 followed by 1st January 1988 to 31st December 1990 and so on.

ii) The eligibility to travel under the FTS and the NTS will be mutually exclusive. In other words, when the visits are only to countries in the group of eight specified neighbourhood countries, the traveller will be eligible to apply for release of exchange quota only under the NTS and not under the FTS. If, however, a traveller wishes to visit any country/countries in the NTS group on his way to other countries covered by FTS, he would be eligible for release of exchange under the FTS only. As hitherto, combination of the FTS and the NTS for the purpose of drawing exchange will not be permissible.

iii) Minor children upto the age of twelve will be eligible to draw exchange at one half the normal FTS/NTS quota i.e. US. $250 or its equivalent in the case of the FTS and US. $125 or its equivalent in the case of the NTS.

Asian Clearing Union

To overcome the problem of divergence between the rates fixed for the whole accounting period and actual daily rates, the Asian Clearing Union has decided that the rates of exchange between the home currency and the different ACU currencies should be quoted by the Central banks of the participating countries on a daily basis. Accordingly, with effect from August 1, 1985, the Reserve Bank announces on a daily basis its rates for purchase and sale of the ACU currencies at six major centres.

Non-resident (External) Accounts — Issue of separate series of cheques

For the purpose of easy identification and proper processing of cheques drawn on Non-resident (External) Accounts and thereby to reduce delays in getting FERA clearance by Indian companies for issue of shares to non-residents of Indian nationality or origin, all banks authorised to deal in foreign exchange have been advised in May 1986 to issue cheques with the prefix 'NRE' for operations on Non-resident (External) Accounts with effect from 1st September 1986.

Purchase of Shares of Foreign Companies by their Indian Employees

In order to enable Indian employees of foreign companies resident in India to subscribe to new share issues of foreign parent companies for which offer at concessive rate are made by the overseas parent companies, it has been decided in May 1986 to consider request for making remittance of amounts not exceeding US $500 per employee for acquiring shares of the concerned foreign company, once in a period of five years. The applicant must be in the employment of an Indian office/branch of the foreign company offering the foreign currency shares out of its public issues and at concessive rates below the market price, at the time of applying for the remittance, and will be eligible to retain the foreign currency shares only so long as he continues to be in such employment.

Working Group on Exchange Control

The Working Group on Exchange Control constituted by the Reserve Bank submitted its report in January 1986. The main thrust of the Working Group's report was on identification of areas of Exchange Control procedures in respect of which there was need for greater delegation of powers and selective liberalisation of certain Exchange Control policies commensurate with the changing environment and priorities as also amendments to the Foreign Exchange Regulations Act, 1973. Some of the recommendations of the Working Group have been accepted by the RBI.

Committee on Non-resident Indian's Investment

The Committee set up under the Chairmanship of Executive Director, Shri T.N. Anantharam Iyer, to review the Exchange Control procedures followed by RBI and Commercial Banks in respect of investment schemes for non-resident Indians submitted its report in October 1985. A number of recommendations of the Committee have since been accepted by the Government of India and implemented by the Reserve Bank. Some of its recommendations are still under consideration of the Government.

Standing Consultative Committee to Advise RBI on matters relating to Exchange Control

A broad-based Standing Consultative Committee has been constituted in accordance with the recommendation of the Patwardhan Committee, with a Deputy Governor as its Chairman to advise the Bank on matters relating to the administration of exchange control on ongoing basis. This Committee comprises representatives of the Foreign Exchange Dealers' Association of India, the Export-Import Bank of India, the Export Credit Guarantee Corporation of India, the Trade Development Authority, the Federation of Indian Chambers of Commerce and Industry, the Association of Indian Engineering Industry, the Associated Chambers of Commerce and Industry, the Travel Agents Association of India, the Indian National Shipowners' Association and the Board of Airline Representatives in India, besides officials from the Government of India and the Reserve Bank. The Committee would provide a regular forum for exchange of views between the Exchange Control Department of the Reserve Bank and representative bodies of the import-export trade and other interest groups on issues of mutual interest.

Changes in Interest Rates on Deposits Under FCNRA Scheme

The Foreign Currency (Non-resident) Account (FCNRA) Scheme was introduced in 1975 to provide an investment avenue for non-resident Indians' savings. During 1985-86, (upto August 21, 1985) the interest rates on these deposits were kept at a level of 2 per cent over the interest rates on domestic fixed deposits of corresponding maturities. Following a noticeable decline in interest rates abroad, particularly those on US dollar deposits, the Bank lowered interest rates on FCNR deposits of some maturities with effect from 22nd August 1985, 10th February 1986 and 5th May 1986 as shown below:

Interest Rates on FCNRA Deposits

(Per cent per annum)

Maturity	Rates as on 21-8-1985	Revised Rates with effect from		
		22-8-85	10-2-86	5-5-86
A) 1 year and above but less than 2 years	10.5	9.5	9.5	8.5
B) 2 years and above but less than 3 years	11.0	10.5	10.0	9.0
C) 3 years and above but less than 5 years	12.0	11.0	10.5	10.0 (3 years only)
D) 5 years only	13.0	12.0	11.0	—

The Bank has also directed that with effect from May 5, 1986 deposits under the FCNRA Scheme should not be accepted by banks for maturities exceeding 3 years.

Opening of Liaison Offices in India by Overseas Companies

During the period April 1985 to March 1986 44 overseas companies were granted permission to open new liaison/representative offices in India. Permission was also granted for opening 12 Project Offices for execution of specific contracts.

Opening of Offices Abroad by Indian Companies

During the period April 1985 to March 1986, permission was also granted to Indian companies/firms for opening 14 trading and 25 non-trading offices and for posting 15 representatives at various foreign centres.

Rouble-Rupee Exchange Rate

The Rouble-Rupee exchange rate in respect of (a) credit agreements and commercial transactions and (b) for contracts (under the Deferred Payment Protocol of April 30, 1981) for deliveries of machinery and equipment from USSR to India were revised from time to time as follows:

	(Rs. per rouble)	
	(a)	(b)
From September 9, 1985	11.4340	12.0849
From November 10, 1985	11.7821	12.4528
From January 20, 1986	12.1527	12.8445
From February 6, 1986	12.5231	13.2360

ANNEXURE.

R.B.I's Spot Rate for Purchases and Sales of Pound Sterling

Date	Buying Rate		Selling Rate		Middle Rate
	£ per Rs.100/-	Rupees per £ 1	£ per Rs.100/-	Rupees per £ 1	Rupees per £ 1
1	2	3	4	5	6
March 29, 1985	6.4893	15.41	6.4558	15.49	15.45
April 2, 1985	6.5531	15.26	6.5189	15.34	15.30
April 8, 1985	6.6181	15.11	6.5833	15.19	15.15
April 9, 1985	6.5104	15.36	6.4767	15.44	15.40
April 10, 1985	6.5531	15.26	6.5189	15.34	15.30
April 11, 1985	6.5317	15.31	6.4977	15.39	15.35
April 12, 1985	6.4267	15.56	6.3939	15.64	15.60
April 15, 1985	6.4475	15.51	6.4144	15.59	15.55
April 16, 1985	6.3857	15.66	6.3532	15.74	15.70
April 17, 1985	6.3452	15.76	6.3131	15.84	15.80
April 18, 1985	6.3654	15.71	6.3331	15.79	15.75
April 19, 1985	6.3251	15.81	6.2933	15.89	15.85
April 23, 1985	6.3857	15.66	6.3532	15.74	15.70
April 24, 1985	6.4475	15.51	6.4144	15.59	15.55
April 25, 1985	6.5317	15.31	6.4977	15.39	15.35
April 26, 1985	6.5963	15.16	6.5617	15.24	15.20
April 29, 1985	6.5531	15.26	6.5189	15.34	15.30
April 30, 1985	6.4475	15.51	6.4144	15.59	15.55
May 1, 1985	6.4683	15.46	6.4350	15.54	15.50
May 3, 1985	6.4893	15.41	6.4558	15.49	15.45
May 6, 1985	6.5746	15.21	6.5402	15.29	15.25
May 7, 1985	6.6181	15.11	6.5833	15.19	15.15
May 8, 1985	6.5104	15.36	6.4767	15.44	15.40
May 9, 1985	6.4893	15.41	6.4558	15.49	15.45
May 13, 1985	6.4061	15.61	6.3735	15.69	15.65
May 14, 1985	6.3857	15.66	6.3532	15.74	15.70
May 15, 1985	6.3452	15.76	6.3131	15.84	15.80
May 20, 1985	6.3251	15.81	6.2933	15.89	15.85
May 23, 1985	6.3654	15.71	6.3331	15.79	15.75
May 24, 1985	6.3452	15.76	6.3131	15.84	15.80
May 27, 1985	6.3654	15.71	6.3331	15.79	15.75
May 30, 1985	6.3052	15.86	6.2735	15.94	15.90
May 31, 1985	6.2854	15.91	6.2539	15.99	15.95
June 3, 1985	6.2461	16.01	6.2150	16.09	16.05
June 4, 1985	6.2657	15.96	6.2344	16.04	16.00
June 5, 1985	6.3251	15.81	6.2933	15.89	15.85
June 17, 1985	6.2854	15.91	6.2539	15.99	15.95
June 18, 1985	6.2657	15.96	6.2344	16.04	16.00
June 19, 1985	6.2073	16.11	6.1767	16.19	16.15
June 21, 1985	6.2854	15.91	6.2539	15.99	15.95
June 25, 1985	6.2657	15.96	6.2344	16.04	16.00
June 27, 1985	6.2267	16.06	6.1958	16.14	16.10
July 1, 1985	6.1881	16.16	6.1576	16.24	16.20
July 4, 1985	6.1690	16.21	6.1387	16.29	16.25
July 5, 1985	6.1501	16.26	6.1200	16.34	16.30
July 8, 1985	6.1125	16.36	6.0827	16.44	16.40

ANNEXURE.

R.B.I's Spot Rate for Purchases and Sales of Pound Sterling

Date	Buying Rate		Selling Rate		Middle Rate
	£ per Rs.100/-	Rupees per £ 1	£ per Rs.100/-	Rupees per £ 1	Rupees per £ 1
1	2	3	4	5	6
July 9, 1985	6.0938	16.41	6.0643	16.49	16.45
July 10, 1985	6.0386	16.56	6.0096	16.64	16.60
July 11, 1985	5.9844	16.71	5.9559	16.79	16.75
July 12, 1985	6.0205	16.61	5.9916	16.69	16.65
July 18, 1985	5.9844	16.71	5.9559	16.79	16.75
July 24, 1985	5.9666	16.76	5.9382	16.84	16.80
July 26, 1985	5.9488	16.81	5.9207	16.89	16.85
July 29, 1985	5.9312	16.86	5.9032	16.94	16.90
July 30, 1985	5.9137	16.91	5.8858	16.99	16.95
July 31, 1985	5.9312	16.86	5.9032	16.94	16.90
August 1, 1985	5.9666	16.76	5.9382	16.84	16.80
August 2, 1985	6.0569	16.51	6.0277	16.59	16.55
August 5, 1985	6.0938	16.41	6.0643	16.49	16.45
August 7, 1985	6.1690	16.21	6.1387	16.29	16.25
August 9, 1985	6.1312	16.31	6.1013	16.39	16.35
August 12, 1985	6.0938	16.41	6.0643	16.49	16.45
August 13, 1985	6.0386	16.56	6.0096	16.64	16.60
August 16, 1985	6.0205	16.61	5.9916	16.69	16.65
August 21, 1985	6.0386	16.56	6.0096	16.64	16.60
August 22, 1985	6.0205	16.61	5.9916	16.69	16.65
August 29, 1985	5.9844	16.71	5.9559	16.79	16.75
September 2, 1985	6.0024	16.66	5.9737	16.74	16.70
September 3, 1985	6.0205	16.61	5.9916	16.69	16.65
September 4, 1985	6.0386	16.56	6.0096	16.64	16.60
September 5, 1985	6.0205	16.61	5.9916	16.69	16.65
September 6, 1985	6.0386	16.56	6.0096	16.64	16.60
September 9, 1985	6.1125	16.36	6.0827	16.44	16.40
September 10, 1985	6.1881	16.16	6.1576	16.24	16.20
September 11, 1985	6.1690	16.21	6.1387	16.29	16.25
September 12, 1985	6.1501	16.26	6.1200	16.34	16.30
September 13, 1985	6.1312	16.31	6.1013	16.39	16.35
September 16, 1985	6.0753	16.46	6.0459	16.54	16.50
September 18, 1985	6.0938	16.41	6.0643	16.49	16.45
September 20, 1985	6.0386	16.56	6.0096	16.64	16.60
September 23, 1985	5.9666	16.76	5.9382	16.84	16.80
September 24, 1985	5.8962	16.96	5.8685	17.04	17.00
September 27, 1985	5.9666	16.76	5.9382	16.84	16.80
October 3, 1985	5.8789	17.01	5.8514	17.09	17.05
October 4, 1985	5.8617	17.06	5.8343	17.14	17.10
October 7, 1985	5.8962	16.96	5.8685	17.04	17.00
October 8, 1985	5.8617	17.06	5.8343	17.14	17.10
October 9, 1985	5.8789	17.01	5.8514	17.09	17.05
October 18, 1985	5.8617	17.06	5.8343	17.14	17.10
October 21, 1985	5.8106	17.21	5.7837	17.29	17.25
October 25, 1985	5.8275	17.16	5.8005	17.24	17.20
October 29, 1985	5.8106	17.21	5.7837	17.29	17.25
October 30, 1985	5.7770	17.31	5.7504	17.39	17.35

ANNEXURE.

R.B.I's Spot Rate for Purchases and Sales of Pound Sterling

Date	Buying Rate		Selling Rate		Middle Rate
	£ per Rs.100/-	Rupees per £ 1	£ per Rs.100/-	Rupees per £ 1	Rupees per £ 1
1	2	3	4	5	6
November 1, 1985	5.7937	17.26	5.7670	17.34	17.30
November 4, 1985	5.7604	17.36	5.7339	17.44	17.40
November 5, 1985	5.7770	17.31	5.7504	17.39	17.35
November 8, 1985	5.8106	17.21	5.7837	17.29	17.25
November 14, 1985	5.7937	17.26	5.7670	17.34	17.30
November 20, 1985	5.7770	17.31	5.7504	17.39	17.35
November 21, 1985	5.7604	17.36	5.7339	17.44	17.40
November 22, 1985	5.7438	17.41	5.7176	17.49	17.45
November 25, 1985	5.6948	17.56	5.6689	17.64	17.60
November 27, 1985	5.6786	17.61	5.6529	17.69	17.65
November 28, 1985	5.6625	17.66	5.6370	17.74	17.70
November 29, 1985	5.6306	17.76	5.6054	17.84	17.80
December 2, 1985	5.5991	17.86	5.5741	17.94	17.90
December 6, 1985	5.6148	17.81	5.5897	17.89	17.85
December 10, 1985	5.6786	17.61	5.6529	17.69	17.65
December 11, 1985	5.7110	17.51	5.6850	17.59	17.55
December 12, 1985	5.7770	17.31	5.7504	17.39	17.35
December 13, 1985	5.7274	17.46	5.7013	17.54	17.50
December 17, 1985	5.7110	17.51	5.6850	17.59	17.55
December 18, 1985	5.7274	17.46	5.7013	17.54	17.50
December 19, 1985	5.7770	17.31	5.7504	17.39	17.35
December 23, 1985	5.7604	17.36	5.7339	17.44	17.40
December 30, 1985	5.7274	17.46	5.7013	17.54	17.50
January 2, 1986	5.7110	17.51	5.6850	17.59	17.55
January 3, 1986	5.6948	17.56	5.6689	17.64	17.60
January 6, 1986	5.7274	17.46	5.7013	17.54	17.50
January 9, 1986	5.6948	17.56	5.6689	17.64	17.60
January 10, 1986	5.6786	17.61	5.6529	17.69	17.65
January 20, 1986	5.6948	17.56	5.6689	17.64	17.60
January 21, 1986	5.7274	17.46	5.7013	17.54	17.50
January 22, 1986	5.7438	17.41	5.7176	17.49	17.45
January 23, 1986	5.7937	17.26	5.7670	17.34	17.30
January 24, 1986	5.8275	17.16	5.8005	17.24	17.20
January 28,1986	5.8106	17.21	5.7837	17.29	17.25
January 29, 1986	5.7770	17.31	5.7504	17.39	17.35
January 30,1986	5.7937	17.26	5.7670	17.34	17.30
January 31, 1986	5.7438	17.41	5.7176	17.49	17.45
February 3, 1986	5.7770	17.31	5.7504	17.39	17.35
February 4, 1986	5.8106	17.21	5.7837	17.29	17.25
February 5, 1986	5.7937	17.26	5.7670	17.34	17.30
February 6, 1986	5.7604	17.36	5.7339	17.44	17.40
February 7, 1986	5.7110	17.51	5.6850	17.59	17.55
February 11, 1986	5.6948	17.56	5.6689	17.64	17.60
February 19, 1986	5.6306	17.76	5.6054	17.84	17.80
February 20, 1986	5.6148	17.81	5.5897	17.89	17.85
February 24, 1986	5.5991	17.86	5.5741	17.94	17.90
February 25, 1986	5.5525	18.01	5.5279	18.09	18.05

ANNEXURE.

R.B.I's Spot Rate for Purchases and Sales of Pound Sterling

Date	Buying Rate		Selling Rate		Middle Rate
	£ per Rs.100/-	Rupees per £ 1	£ per Rs.100/-	Rupees per £ 1	Rupees per £ 1
1	2	3	4	5	6
February 27, 1986	5.5371	18.06	5.5127	18.14	18.10
February 28, 1986	5.5679	17.96	5.5432	18.04	18.00
March 3, 1986	5.6465	17.71	5.6211	17.79	17.75
March 5, 1986	5.5991	17.86	5.5741	17.94	17.90
March 7, 1986	5.6465	17.71	5.6211	17.79	17.75
March 10, 1986	5.6148	17.81	5.5897	17.89	17.85
March 12, 1986	5.5679	17.96	5.5432	18.04	18.00
March 13, 1986	5.5525	18.01	5.5279	18.09	18.05
March 14, 1986	5.5835	17.91	5.5586	17.99	17.95
March 17, 1986	5.5679	17.96	5.5432	18.04	18.00
March 19, 1986	5.5525	18.01	5.5279	18.09	18.05
March 20, 1986	5.4915	18.21	5.4675	18.29	18.25
March 24, 1986	5.4466	18.36	5.4230	18.44	18.40
March 25, 1986	5.4915	18.21	5.4675	18.29	18.25
March 26, 1986	5.5218	18.11	5.4975	18.19	18.15
March 27, 1986	5.4915	18.21	5.4675	18.29	18.25
March 31, 1986	5.5066	18.16	5.4825	18.24	18.20
April 2, 1986	5.4765	18.26	5.4526	18.34	18.30
April 3, 1986	5.4915	18.21	5.4675	18.29	18.25
April 8, 1986	5.4466	18.36	5.4230	18.44	18.40
April 11, 1986	5.4318	18.41	5.4083	18.49	18.45
April 15, 1986	5.4171	18.46	5.5937	18.54	18.50
April 17, 1986	5.3879	18.56	5.3648	18.64	18.60
April 18, 1986	5.3591	18.66	5.3362	18.74	18.70
April 24, 1986	5.3305	18.76	5.3079	18.84	18.80
April 25, 1986	5.3163	18.81	5.2938	18.89	18.85
April 28, 1986	5.2882	18.91	5.2659	18.99	18.95
April 29, 1986	5.2743	18.96	5.2521	19.04	19.00
May 2, 1986	5.3022	18.86	5.2798	18.94	18.90
May 5, 1986	5.2743	18.96	5.2521	19.04	19.00
May 8, 1986	5.2604	19.01	5.2383	19.09	19.05
May 13, 1986	5.2466	19.06	5.2247	19.14	19.10
May 14, 1986	5.2604	19.01	5.2383	19.09	19.05
May 15, 1986	5.2466	19.06	5.2247	19.14	19.10
May 16, 1986	5.2743	18.96	5.2521	19.04	19.00
May 19, 1986	5.2882	18.91	5.2659	18.99	18.95
May 20, 1986	5.2743	18.96	5.2521	19.04	19.00
May 23, 1986	5.2882	18.91	5.2659	18.99	18.95
May 28, 1986	5.2743	18.96	5.2521	19.04	19.00
May 30, 1986	5.2882	18.91	5.2659	18.99	18.95
June 2, 1986	5.3022	18.86	5.2798	18.94	18.90
June 4, 1986	5.2882	18.91	5.2659	18.99	18.95
June 5, 1986	5.3022	18.86	5.2798	18.94	18.90
June 6, 1986	5.2882	18.91	5.2659	18.99	18.95
June 10, 1986	5.3022	18.86	5.2798	18.94	18.90
June 11, 1986	5.2604	19.01	5.2383	19.09	19.05
June 12, 1986	5.2466	19.06	5.2247	19.14	19.10
June 17, 1986	5.2743	18.96	5.2521	19.04	19.00
June 23, 1986	5.3022	18.86	5.2798	18.94	18.90
June 24, 1986	5.2743	18.96	5.2521	19.04	19.00
June 27, 1986	5.2604	19.01	5.2383	19.09	19.05

APPENDIX-I
IMPORTANT EXPORT CONTROL/PROMOTION ANNOUNCEMENTS
(APRIL 1985 – JUNE 1986)

A. CHANGES IN EXPORT CONTROL

Sr. No.	Item	Month(s) of Announcement	Details
1	2	3	4
1.	Wheat and Wheat Products	April 1985	Export of wheat and wheat products, viz. maida, suji and wholemeal atta was allowed within a limited ceiling on "first-come, first-served" basis subject to minimum export prices as mentioned below: a) Wheat — Rs.1600/- per M.T., F.O.B. in bulk. b) Wholemeal Atta — Rs.1750/- per M.T., F.O.B. c) Maida/Suji — Rs.2050/- per M.T., F.O.B.
2.	Mulberry Silk Waste	April 1985	Export was allowed 'on merit' subject to the linking arrangement of supplies to government and private spun silk mills.
3.	Sea Weeds	April 1985	Export was allowed within a limited ceiling on "first-come, first-served" basis.
4.	Frog Legs	April 1985	Export of frog legs processed in units engaged essentially in processing marine products was allowed within a limited ceiling on "first-come, first-served" basis.
5.	Semi-processed Hides and Skins	April 1985	Export quotas for cow hides, buffalo hides, cow calf skins, buffalo calf skins, sheep and goat skins were released to eligible quota holders.
6.	CTC Tea	April 1985	Minimum export prices were reduced to Rs.22/- and Rs.18/- per kg. for auction and direct sales, respectively.
		August 1985	Minimum export price was abolished.
7.	Polyester Filament Texturised Yarn	May 1985	Export was allowed within a limited ceiling on "first-come, first-served" basis.
8.	Rayon Filament Yarn	May 1985	Export was allowed within a limited ceiling on "first-come, first-served" basis subject to the minimum export price of: 1. Rs.31.50 per kg. for 75 deniers 2. Rs.26.00 per kg. for 120 deniers 3. Rs.20.00 per kg. for 150 deniers
		January 1986	Export of rayon filament yarn of 150 deniers and above was allowed subject to the minimum export price of Rs.20/- per kg. F.O.B.
9.	Viscose Staple Fibre Spun Yarn	May 1985	Export was allowed within a limited ceiling with minimum export price of Rs.18 per kg. F.O.B. on "first-come, first-served" basis.
10.	Maize	May 1985	Export was allowed within a limited ceiling on "first-come, first-served" basis by issue of export licences against 100 per cent confirmed irrevocable letter of credit.
11.	H.P.S. Groundnuts	May 1985	Within the overall canalisation policy for export of H.P.S. groundnuts through NAFED, private parties were allowed to export H.P.S. groundnut during 1985-86 as associates of NAFED in their own names against the ceilings earmarked for them.
12.	Raw Wool (Indigenous)	May 1985	Export of raw wool (Indigenous) upto 36s quality except Angora Goat hair or Mohair was allowed within a limited ceiling on "first-come, first-served" basis.
13.	Hatching Eggs	May 1985	Export was allowed within a limited ceiling on "first-come, first-served" basis by all categories of exporters to all permissible destinations against firm sale contract.

1	2	3	4
14.	Solvent Extracted Cotton Seed Cakes	May 1985	Ceiling was released and export allowed on "first-come, first-served" basis against registration of contracts with the All India Cotton Seed Crushers' Association, Bombay.
15.	Prophyllite	May 1985	Export was allowed within a limited ceiling on "first-come, first-served" basis.
16.	Blanched and Roasted Peanuts	May 1985	Export was allowed within a limited ceiling on "first-come, first-served" basis subject to the minimum export price of Rs.11,000/- per M.T., F.O.B.
17.	Hydrogenated oil (Vanaspati Ghee)	May 1985	Ceiling was released and export allowed on "first-come, first-served" basis.
18.	De-oiled Rice Bran (Rice Bran Extraction)	May 1985	Ceiling was released and export allowed on "first-come, first-served" basis against registration of contracts with the Solvent Extractors' Association of India, Bombay.
19.	Corrundum (Other than Saphires and Rubies)	May 1985	Export was allowed on "first-come, first-served" basis within a limited ceiling.
20.	De-oiled groundnut cake (Extractions)	May 1985	Ceiling was released and export allowed on "first-come, first-served" basis against registration of contracts with the GEEDA, Bombay.
21.	Pure Milk Ghee	May 1985	Export was allowed within a limited ceiling on "first-come, first-served" basis against 100 per cent irrevocable letter of credit opened and accepted by an Indian bank or against full payment received in advance. STC was allowed to export this item during 1985-86.
22.	Cotton Seed Expeller Cakes	May 1985	Ceiling was released and export allowed within a limited ceiling on "first-come, first-served" basis against registration of contracts with All India Cotton Seed Crushers' Association, Bombay.
23.	Crushed Bones and Steamed Crushed Bones	May 1985	Ceiling was released and export allowed on "first-come, first-served" basis to all categories of exporters to all permissible destinations against firm sale contracts backed by 100 per cent irrevocable letter of credit.
24.	Bajra	May 1985	Ceiling was released and export allowed subject to minimum export price of Rs.2000/- per M.T., F.O.B. Private trade was also allowed to export Bajra as associates of NAFED in their own names against the ceiling earmarked for them subject to registration of contracts with NAFED, backed by 100 per cent irrevocable letter of credit, on "first-come, first-served" basis.
		November 1985	Private trade was allowed to export Bajra without registration of contracts with NAFED but subject to all other conditions prescribed earlier.
25.	Live Sheep and Goats (adults)	May 1985	Export was allowed within an overall ceiling by all categories of exporters to all permissible destinations subject to certain conditions relating to place of procurement, quarantine and vaccination,etc.
26.	Live Buffaloes	May 1985	Export was allowed within a ceiling to all permissible destinations subject to certain conditions and endorsement on the shipping bill by the licensing authorities, on a six monthly basis.
27.	Wollastonite	May 1985	Ceiling was released and export allowed on "first-come, first-served" basis.
28.	Basmati Rice	May 1985	Minimum export price for export of Basmati Rice under OGL-3 was raised from Rs.6500/- to Rs.7500/- per M.T., F.O.B.

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		June 1985	Export was allowed on the pre-revised minimum export price of Rs.6500/- M.T., F.O.B. against firm contracts entered into prior to May 15, 1985 and backed by irrevocable letter of credit.
		July 1985	Export to Government or States or public sector organisation was allowed at minimum export price of Rs.6500/- M.T., F.O.B. against firm contracts entered into prior to May 15, 1985 and backed by governmental confirmation.
29.	Textile Cloth and Materials of Olive Green Shade	June 1985	Export of textile cloth dyed in olive green and other olive green materials was allowed within a limited ceiling on "first-come, first-served" basis.
30.	Peacock tail feathers and articles/handicrafts made of peacock tail feathers	June 1985	Export was allowed by certain specified categories including public sector and co-operative agencies within a limited ceiling against valid irrevocable letter of credit. Export of crest feathers or any other part of peacock was not allowed.
31.	Meat-cum-bone meal	July 1985	Export was allowed within a limited ceiling on "first-come, first-served" basis.
		September 1985	Export was allowed under OGL-3 without any conditions.
32.	Wild life and wild life products	July 1985	Export of listed items were allowed within a limited ceiling on "first-come, first-served" basis subject to production of legal procurement certificates issued by the concerned wild life authority.
33.	Pearl Barley	July 1985	Export was allowed within a ceiling on "first-come, first-served" basis by all categories of exporters to all permissible destinations against a firm sale contract or a cable offer and acceptance.
34.	Jowar and Ragi	July 1985	Ceiling was released and export allowed subject to minimum export price fixed by NAFED. Private trade was also allowed to export as associates of NAFED subject to registration of contracts with NAFED backed by 100 per cent irrevocable letter of credit on "first-come, first-served" basis.
		November 1985	Private trade was allowed to export Jowar and Ragi under the overall canalisation policy of NAFED subject to minimum export price of Rs.2000/- per tonne, F.O.B. against contracts backed by 100 per cent irrevocable letter of credit and without registration of contracts with NAFED.
35.	Rajagaro seed/powder	July 1985	Ceiling was released and export allowed on "first-come, first-served" basis.
36.	Samo seeds and Kodari seeds	July 1985	Export was allowed within a limited ceiling on "first-come, first-served" basis subject to certain conditions.
37.	Writing and printing paper (including Airmail Tissue papers below 34 GSM)	July 1985	Export of writing and printing paper including Airmail Tissue paper below 34 GSM was allowed within a ceiling on "first-come, first-served" basis.
38.	Ferro Manganese and Ferro Chrome	August 1985	Export of Ferro Manganese (other than Ferro Manganese containing less than 0.5 per cent carbon), Silica manganese and Ferro chrome (other than Ferro Chrome containing less than 0.03 per cent carbon and Nitrogen bearing)/Silica chrome was allowed within a limited ceiling.
39.	Human skeleton and parts thereof	August 1985	Export was banned with immediate effect.
40.	Hand knitted/woven woollen carpets	September 1985	Export of hand knitted/woven woollen carpets of Persian/mubarak designs above 32,000 knots per sq. metre was allowed under OGL-3.

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41.	Magnesite	October 1985	Export of Calcined magnesite with Silica content below 6.5 per cent and Dead Burnt Magnesite was not permitted. Exports of other types of magnesite were allowed as follows: 1) Calcined Magnesite with silica content of 6.5 to 7.5 per cent was allowed within a limited ceiling on "first-come, first-served" basis. 2) Calcined Magnesite with silica content above 7.5 per cent was allowed on 'licensed freely' basis. 3) Raw magnesite was considered 'on merits'.
42.	Cotton linters	October 1985	Export was allowed within a limited ceiling on "first-come, first-served" basis.
43.	Wheat seeds and paddy seeds (certified)	November 1985	Export was canalised through the National Seeds Corporation Limited.
44.	Wheat straw	November 1985	Export of Wheat straw (hay) was allowed within a limited ceiling on "first-come, first-served" basis provided it was procured only from Punjab, Haryana and Delhi.
45.	Knitwear (woollen)	November 1985	Export of knitwear (woollen) other than olive green shade was allowed under OGL-3 subject to minimum export price of Rs.155/- per kg. F.O.B.
46.	Venom of snakes	November 1985	Export of venom of snakes (only cobra venom and Russel's venom) was allowed within a limited ceilingon "first-come, first-served" basis.
47.	Processed Foods and Indian Snacks	November 1985	Export of high value added processed foods and Indian snacks in consumer packs upto one kg. was allowed within a limited ceiling on "first-come, first-served" basis subject to minimum export price of Rs.9/- per kg.
48.	Compost Fertilisers	November 1985	Export was allowed within a limited ceiling on "first-come, first-served" basis at minimum export price of Rs.500/- per tonne subject to the condition that for every tonne of compost fertiliser exported one tonne was to be sold within the country. Private traders were required to purchase the compost fertiliser for export from the compost plants of the Agro-Industries Corporation/Municipal Bodies.
49.	Tobacco.	February 1986	Export of different grades of flue-cured virginia tobacco, sun-cured 'Natu' (country) and sun-cured jutty tobacco was allowed subject to minimum export prices fixed against each item.
50.	Non-basmati Rice	February 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis subject to minimum export price of Rs.4000/- per tonne F.O.B. against 100 per cent confirmed irrevocable letter of credit.
51.	De-oiled Rice Bran (Rice Bran Extraction)	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis against registration of contracts with the Solvent Extractors' Association of India, Bombay.
52.	Solvent Extracted Cotton seed cakes (decorticated and undecorticated)	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis against registration of contracts with the All India Cotton Seed Crushers' Association, Bombay.
53.	De-oiled Groundnut Cake (Extractions)	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis against registration of contracts with the Groundnut Extractors' Export Development Association, Bombay.
54.	Non-basmati Rice	April 1986	Export was allowed within a limited ceiling of 1 lakh tonnes on "first-come, first-served" basis subject to minimum export price of Rs.4,000/- per tonne F.O.B.
55.	Rayon Filament Yarn	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis subject to minimum export prices as mentioned below: 1) Rs.31.50 per kg. for 75 deniers. 2) Rs.26.00 per kg. for 120 deniers, 3) Rs.20.00 per kg. for 150 deniers and above.

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56.	Meat of Indian Goat	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis subject to minimum export price of Rs.19/- per kg. F.O.B. on presentation of shipping bill/airways bill.
57.	Pure Milk Ghee	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis only against 100 per cent irrevocable letter of credit opened and accepted by any Indian bank or against full payment received in advance.
58.	Wheat and Wheat Products	April 1986	Export of wheat was allowed within a limited ceiling on "first-come, first-served" basis without any minimum export price. Export of wheat products namely maida, suji and whole meal atta was allowed within a limited ceiling on "first-come, first-served" basis subject to minimum export prices as mentioned below: a) Whole meal atta — Rs.1750/- per M.T., F.O.B., b) Maida/suji — Rs.2050/- per M.T., F.O.B.
59.	Maize	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis by issue of export licences against 100 per cent confirmed irrevocable letter of credit.
60.	Rhubarbee Roots	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis.
61.	Dehusked Coconut Whole, Coconut Flour and Desicated Coconut	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis. Export of dehusked coconut whole is allowed subject to minimum F.O.B. value of Rs.24/- per kg.
62.	Pearl Barley	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis by all categories of exporters to all permissible destinations on production of a firm sale contract or cable offer and acceptance.
63.	Rajagaro seed/Powder	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis.
64.	Wheat seeds and Paddy seeds	April 1986	Export was canalised through the National Seeds Corporation Limited and permitted by port licensing authorities by making endorsement on shipping bills.
65.	Samo seeds and Kodari seeds	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis subject to certain conditions.
66.	Cotton Linters	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis.
67.	Hydrogenated oil (Vanaspati Ghee)	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis.
68.	Cotton seed Expeller Cakes	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis against registration of contracts with the All India Cotton Seed Crushers' Association, Bombay.
69.	High value added Processed Foods and Indian Snacks	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis subject to minimum export price of Rs.9/- per kg.
70.	Writing and printing papers all sorts including Airmail Tissue Paper below 34 GSM	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis.
71.	Live Sheep and Goats (adult)	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis on production of irrevocable letter of credit or proof of receipt of payment against a specific export order, subject to minimum export price of Rs.12/- per kg. F.O.B. of live weight of the animal and certain other conditions.

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72.	Peacock tail feathers, Articles/ Handicrafts made of peacock tail feathers	April 1986	Export was allowed within a limited ceiling by all categories of exporters falling under respective categories against valid irrevocable letter of credit and export licences.
73.	Eggs	April 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis.
74.	Groundnuts (both in shell and kernels)	April 1986	Export of H.P.S. Groundnuts (both in shell and kernels) was allowed under OGL-3 against contracts registered with Agricultural Products Export Development Authority, Delhi.
75.	Wild Life and Wild life Products	May 1986	Export of listed items was allowed within a limited ceiling on "first-come, first-served" basis subject to production of legal procurement certificate issued by the concerned wild life authority.
76.	Bajra	May 1986	Ceiling was released and export allowed subject to minimum export price of Rs. 2000/- per M.T., F.O.B. Private trade was also allowed to export Bajra as associates of NAFED in their own names against the ceiling earmarked for them subject to registration of contracts with NAFED, backed by 100 per cent irrevocable letter of credit on "first-come, first-served" basis.
77.	Jowar & Ragi	May 1986	Ceiling was released and export allowed subject to minimum export price of Rs.2,000/- per tonne F.O.B. Private trade was also allowed to export as associates of NAFED in their own names on "first-come, first-served" basis against the contracts backed by 100 per cent irrevocable letter of credit.
78.	Live Buffaloes	May 1986	Export was allowed during the first six months of 1986-87, within a ceiling to all permissible destinations subject to certain conditions and endorsement of the shipping bill by the licensing authorities.
79.	Handicrafts made of sandal wood	May 1986	Export was allowed provided the value addition of handicrafts made of sandal wood is minimum of 300 per cent of the average price of sandal wood per M.T. announced by the Development Commissioner (Handicrafts) from time to time.
80.	Cantharidine Beetles	May 1986	Export was allowed on merits within a limited ceiling on "first-come, first-served" basis.
81.	Gum Karaya	May 1986	Export was allowed provided it was canalised through NAFED.
82.	Rice Bran Oil	May 1986	Export was prohibited with immediate effect.
83.	Solvent Extractions not specified elsewhere and Mango Kernel Oil, Mahua Oil and Neem Seed Oil	May 1986	Export was allowed under OGL-3 against registration of contracts with the Solvent Extractors' Association of India, Bombay.
84.	Wollastonite	May 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis.
85.	Pyrophyllite	May 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis.
86.	Corrundum (other than Saphires and Rubies)	May 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis.
87.	Hatching Eggs	May 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis by all categories of exporters to all permissible destinations against firm sale contracts.

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88.	Wild life and Wild life Products	June 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis on production of legal procurement certificate issued by the chief of Wild Life Authorities.
89.	Seedlac	June 1986	Export was allowed to exporters of shellac to the extent of 20 per cent of the quantity of shellac shipped.
90.	Crushed Bones and Steamed Crushed Bones	June 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis by all categories of exporters to all permissible destinations against firm sale contracts backed by 100 per cent irrevocable letter of credit.
91.	Sea-weeds	June 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis.
92.	Venom of Snakes	June 1986	Export (only Cobra venom, Russel's and Viper venom) was allowed within a limited ceiling on "first-come, first-served" basis.
93.	Viscose Staple Fibre Spun Yarn	June 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis with minimum export price of Rs.18.00 per kg. F.O.B.
94.	Rayon Filament Yarn	June 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis subject to minimum export prices as mentioned below: 1) Rs.31.50 per kg. for 40-75 Deniers, 2) Rs.26.00 per kg. for 76-149 Deniers, 3) Rs.20.00 per kg. for 150 and above Deniers.
95.	Polyester Filament -Texturised Yarn	June 1986	Export was allowed within a limited ceiling on "first-come, first-served" basis.

APPENDIX-I
B — CHANGES IN EXPORT DUTIES
(APRIL 1985 to MARCH 1986)

Sr. No.	Item	Date of Announcement/ Effective Date	Duty		Cess		Remarks
			Present	Previous	Present	Previous	
1	Coffee	29.4.85	Rs.570 per quintal	Rs.720 per quintal	Rs.11.80	Rs.11.80	Decrease
	Coffee	10.6.85	Rs.415 per quintal	Rs.570 per quintal	Rs.11.80	Rs.11.80	Decrease
	Coffee	2.8.85	Rs.300 per quintal	Rs.415 per quintal	Rs.11.80	Rs.11.80	Decrease
	Coffee	31.1.86	Rs.600 per quintal	Rs.300 per quintal	Rs.11.80	Rs.11.80	Increase
2	Black pepper	7.5.85	Rs.3 per kg.	Rs.1.25 per kg.	½%	½%	Increase
3	Hides, skins and leather (Tanned and Untanned)	30.5.85	15%	10%			Increase
4	Finished leather of goats, sheep and bovine animals and their young ones	30.8.85	Nil	Nil	½%	½%	Conditional. Effective from 1.9.85
5	Unmanufactured tobacco	1.3.86	Nil	75 Paise per kg. or 20% whichever is lower	½% + ½%	½%	Decrease

Source: Customs Notifications, Ministry of Finance, Govt. of India.

APPENDIX-II

A — IMPORTANT ANNOUNCEMENTS WITH REGARD TO IMPORT CONTROL POLICY (APRIL 1985 – MARCH 1986)

Sr. No.	Item	Month of Announcement	Details
1	2	3	4
1.	Open General Licence No.1. @*	April 1985	Permission was granted for imports, by acutal users (industrial), for their own use, raw materials, components and consumables (except those included in the banned, restricted, limited permissible and canalised lists of items) and also instruments. Imports of the following items were allowed by various importers subject to fulfilling various conditions stipulated: 1) Imports of components by DGTD units and textile machinery manufacturing units were subject to the conditions that the import contracts are registered and are in accordance with the list attestation procedure; 2) in the case of imports of raw materials, components and consumables required by a 'proposed unit', imports are made only through the State Industrial Development Corporation/State Financial Corporation on behalf of the acutal user, or on production of evidence by the actual user, of having furnished a bank guarantee for a value equal to 25 per cent of the c.i.f. value of the goods imported; 3) in respect of import of man-made fibre, tow, yarns, raw wool/greasy wool/scoured wool, not carded or combed, angora goat hair (Mohair), woollen rags/synthetic rags/shoddy wool in completely pre-mutilated condition, the import contracts are registered with the Textile Commissioner in advance; 4) imports of man-made fibre, tow and yarns by the State Trading Corporation of India were allowed subject to registration of import contracts with the Textile Commissioner; 5) the import contracts in the case of Terephthalic Acid (TPA) are registered with the Ministry of Petroleum; 6) in the case of imports of PVC resin, wood pulp, caustic soda and copper/scraps/copper mill scrap, the import contracts are registered with the DGTD; 7) for the import of Rifampicin, the import contracts are registered with the Joint Secretary and Development Commissioner (Drugs); 8) import of vitamin B-6 (pyridoxin HCL/pyridoxin base) and pyridoxin intermediate to the extent of 33 per cent of the total requirements are to be made through the Indian Drugs and Pharmaceuticals Ltd (IDPL) and the balance 67% of the requirement after customs clearance; 9) imports of woollen rags/shoddy wool/synthetic rags will be allowed in completely pre-mutilated condition; 10) import of raw cashewnuts is allowed by both actual users and Cashew Corporation of India; 11) in the case of carbon steel items imports are allowed by oil refineries and others provided the import contracts are registered with the Iron and Steel Commissioner within one month; 12) in respect of the import of pesticides and weedicides, the details of each consignment, quantity and the c.i.f. value thereof are required to be intimated to the Department of Agriculture (Plant Protection Division) within 7 days of customs clearance; 13) import of polysilicon, single crystal silicon ingots/bars/rods other than metallurgical grade silicon, silicon wafers other than diffused wafers, dices and chips were subject to registration with the Department of Electronics; 14) the import of unmanufactured ivory was subject to inspection by the Regional Deputy Director, Wild Life Preservation, (Department of Environment) and regulations of Convention on International Trade in Endangered Species and Wild Flora and Fauna; 15) import of greases and lubricating oils, upto a value of Rs.10,000, was allowed subject to permission by the Indian Oil Corporation (Marketing Division); 16) certain specified items under the OGL were allowed for imports, for stock and sale, by actual users (industrial) and others; 17) in the case of brass/copper pipes and tubes imported as scrap, their size should not exceed 15 cm. in length unless they are imported as scrap in hydraulically pressed briquettes, and 18) certain specified items under

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			OGL are allowed for imports by actual users (industrial), Export Houses/ Trading Houses against REP and Additional Licences for sale.
2.	Open General Licence No.2 @	April 1985	Acutal users (both industrial and non-industrial) were allowed to import under OGL, specified capital goods, as listed in Part I-B of the Import-Export Policy 1985-88, provided they are registered with the Director General of Technical Development (DGTD) or the concerned State Director of Industries, such items being required for use in his factory, commercial establishment, institution, professional office or other premises, and that by importing these capital goods, the licenced/authorised capacity of his production does not go up, in the case of import of second hand or reconditioned items, the machinery is not more than seven years old and the residual life is atleast five years and the c.i.f value of equivalent capital goods if the same is certified by a professional, independent chartered engineer/any equivalent institution of the country from which imported.
3.	Open General Licence No.3	April 1985	Imports of permissible spares (other than those in the banned, limited permissible, restricted and measuring instruments lists) were allowed by actual users (industrial and non-industrial) for their own use, as one required for maintaining capital goods, accessories, ancillary equipments, control and laboratory equipments and safety appliances installed or in use as on April 1, of the licensing year. In the case of import of computer systems, import of permissible spares upto 5 per cent of the c.i.f. value of imported computers, or two per cent per annum of the purchase price of indigeneously manufactured computer systems or 5 per cent of computer which are integral part of the photo composing machines, subject to the condition that the importer shall at the time of customs clearance, produce a certificate from the Chartered/Cost Accountant or Company Secretary, showing the c.i.f. value or the purchase price of the computer system. Small scale units, registered with sponsoring authorities, were also eligible to import goods under this licence. Actual users were required to furnish the total c.i.f. value and description of such imported items if the cost exceeded Rs.2 lakhs.
4.	Open General Licence No.4	April 1985	Permission was granted for the import of the following items by specified importers subject to conditions stipulated per each case. 1) Re-import of items after repairs abroad (the item re-imported must be the same as the one sent abroad for repairs); 2) free-gifts of trade catalogues and circulars upto a value limit of Rs.2000; 3) blue prints and drawings (including micro films) for use by importers themselves relating to machinery and plant sites, work and building research data, supplied free of charge and not having any commercial value; 4) bonafide technical and trade samples supplied free of charge upto Rs.20,000 in c.i.f. value in one consignment, except vegetable seeds, bees, tea and new drugs; 5) bonafide advertising material supplied free of charge by foreign suppliers or imported against an insurance (marine) or marine-cum-erection insurance claim, in replacement of the goods previously imported but found defective or otherwise unfit for use or lost or damaged after import, provided that, the replacement goods are shipped within 24 months and that no remittance is involved, except for payment of insurance and freight charges; 6) drugs and medicines supplied free of charge for clinical trials, with prior permission from the Drugs Controller of India; 7) bonafide trade sample of drugs and medicines supplied free of cost to the sole agents in India upto a value of Rs.10,000 in c.i.f. per consignment and with the prior approval of the Drugs Controller; 8) human vaccine and sera supplied free of charge or against payment, on prior approval of the Drugs Controller; 9) animal including poultry vaccine, supplied free of charge, on recommendations of the Animal Husbandry Commissioner and 10) technical and trade samples

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			of insecticides (including pesticides and weedicides) supplied free of charge, on the basis of Registration Committee set up under the Insecticides Act, 1968.
5.	Open General Licence No.5	April 1985	Research and development units, scientific or research laboratories, institutions of higher education and hospitals recognised by Central/State Governments, were allowed to import raw materials, components,spares, consumables, machinery, equipment, instruments, accessories and tools except consumer goods and office machines, with a declaration that the imported items are required for their own use. In the case of computers, computer based systems and their spares, the imports shall be in accordance with the policy as applicable to others. In respect of import of time and attentuated micro organism in any form for R & D purposes a prior sanction from the Animal Husbandry Commissioner (Department of Agriculture) is to be obtained.
6.	Open General Licence No.6	April 1985	Items imported by canalising agencies were subject to the foreign exchange allocated by the Government for the purpose and the imported items are distributed by the canalising agencies in accordance with the provisions laid down.
7.	Open General Licence No.7	April 1985	Actual users (Industrial) were allowed to import for their own use, jigs, fixtures, dies and patterns, moulds (including moulds for die-casting) and press tools (except those in the banned, restricted or limited permissible list of items). The actual users (industrial) were required to register themselves with DGTD or the State Director of Industries. In the case of import of second-hand or reconditioned items, the item is not more than 7 years old and the residual life is atleast 5 years, and the c.i.f. value of equivalent capital goods is certified to this effect by a professional, independent Chartered Engineer/any equivalent institute of the country from which imports are effected.
8.	Open General Licence No.8	April 1985	The Oil and Natural Gas Commission, the Oil India Limited, the Gas Authority of India Ltd., and M/s Bharat Coal Mines Ltd., were permitted to import, subject to 'Actual user' condition, items of raw materials, components, consumables, machinery, equipment, instruments, accessories, tools and spares (but not consumer goods), after clearance by DGTD from the indigenous angle. In respect of import of electronic items including fascimile equipment for a c.i.f. value of Rs.3 lakhs or more, and marine electronic equipment irrespective of value or communication equipment of a c.i.f. value of Rs.1 lakh or more, the importer has to obtain a clearance from the Department of Electronics. The imports are made against foreign exchange released by the Government for the purpose. However, in the case of re-export of the main equipment brought along with the foreign experts in the course of executing service contracts awarded to them by the ONGC, the Oil India Ltd., the Gas Authority of India Ltd., or the Mazagaon Docks Ltd., no indigenous clearance is necessary, if the imported equipment does not involve any payment and the equipment is re-exported when the foreign experts leave India on completion of the project work.
9.	Open General Licence No.9	April 1985	The Air-India, the Indian Airlines, an owner of executive aircrafts, and other airlines who are members of the IATA were allowed to import, subject to 'actual user' condition, spares, consumables (excluding greases and lubricants which are canalised), aircraft tyres and tubes, manuals, technical drawings, illustrations and other technical literatures, provided the following conditions are fulfilled: 1) Consumer goods are not imported; 2) particulars of current membership of IATA are furnished and 3) companies operating aircraft or engaged in aerial spraying of crops import only permitted spares (i.e., other than those spares which are in the restricted or

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			limited permissible list of items) for maintenance of their aircraft and they produce a certificate to the effect that they are registered for the last 3 years under the local law of shops and establishments, to the customs.
10.	Open General Licence No.10	April 1985	Permission was granted to specified importers who are actual users, to import the following items subject to conditions stipulated: 1) drugs and medicines, 2) medical including surgical, optical and dental instruments, apparatus and appliances and replacement parts and accessories thereof and dental materials, 3) sutures and needles for surgical purposes (those canalised and allowed under OGL, 4) X-ray intensifying screens, 5) Scientific and measuring instruments and chemicals, 6) testing equipment and testing instruments and chemicals, 7) spare parts of motor vehicles and agricultural tractors and 8) amateur radio communication equipment, instruments, spares and components of specified frequency ranges. Imports should be within the value ceiling indicated against each item and for the specified purpose only; 2) the c.i.f. value of the goods already imported during the same financial year, is declared; 3) in the case of import of computers/computer based system of a value of Rs.10 lakhs or less the imports are for own use and not for stock and sale; and 4) second-hand computers/computer based system are not imported.
11.	Open General Licence No.11	April 1985	Actual users engaged in ship repairing work were allowed to import capital goods, raw materials, components, consumables and spares provided the following conditions were fulfilled: 1) the importer is registered with the Director General, Shipping, as a ship repairing unit; 2) the goods were imported in customs bonded premises; 3) the imported goods were used in the repairs of ocean-going vessels, whether Indian or foreign, in the custom bonded premises: 4) the procedure applicable for custom bonding was followed, including transit bond, and 5) at the end of each financial year, the importer furnished an account of the items imported and their c.i.f. value, items used in ship repairing works and the amount of foreign exchange earned in ship repairs, duly certified by the bank to the licensing authority and the Director General of Shipping.
12.	Open General Licence No.12	April 1985	Government departments (Central or State), Government controlled or owned projects were allowed to import any goods, including personal effects by foreign experts in the course of execution of a project in India, provided: 1) the goods so imported are free of charge and in accordance with the relevant agreement entered into between the Government of India and the foreign government, and 2) the personal effects are re-exported back to the country from where the foreign expert came to India, after completion of the project work.
13.	Open General Licence No.13	April 1985	Registered exporters of gem and jewellery and co-operative societies of goldsmiths and artisans, export promotion councils of gem and jewellery, Institutes set up by the council and regional training institutions connected with gem and jewellery industry were allowed to import machinery, equipments, testing apparatus, tools and implements under OGL, for their own use subject to 'actual user' condition. In the case of import of second-hand or reconditioned items, the items should not be more than 7 years old and their balance life has to be at least 5 years and a certificate to this effect by a chartered engineer of the country from which imports are made, is produced at the time of customs clearance.
14.	Open General Licence No.14	April 1985	Government departments (as distinct from industrial departmental undertakings), Government industrial undertakings (departmentally-run), railways, state electricity boards/undertakings, projects in the public sector and public sector industrial undertakings under the Ministry of Defence were allowed to import capital goods, raw materials, components and consumables and spares subject to the following conditions: import of the

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			above items by Government departments/Government industrial undertakings (departmentally run, excluding defence undertakings) and railways were allowed under OGL, 1) if the items falling under the banned, limited permissible or restricted lists are cleared by the DGTD from indigenous angle; 2) where an import of electronic item including fascimile equipment costing Rs.5 lakhs or more and marine electronic equipment and parts irrespective of value or communication equipments of Rs.1 lakh and above is involved, clearance from the Department of Electronics is obtained; 3) Items of capital goods imported are those which are listed in Appendix 1, part-B of the Import-Export policy 1985-88, and jigs, fixtures, dies and patterns, moulds (including moulds for die-casting) and press tools (other than those banned, restricted or in the limited permissible lists) and parts thereof and 4) imports are made against foreign exchange released for the purpose. Imports of spares are limited to imports by State electricity boards/projects/undertakings in the public sector and the Director General, 'Doordarshan', All India Radio and Posts & Telegraphs department against foreign exchange released by the Government for the purpose. However, imports of spares whose imports are banned, or restricted were permitted subject to indigeneous clearance by DGTD. In the case of imports by R&D units and public sector industrial undertakings under the Defence Ministry, import of items of capital goods and other items as specified in item No.5 of OGL list, computer spares, were also allowed.
15.	Open General Licence No.15	April 1985	Recognised educational, scientific, technical and research institutions, libraries of such institutions, Central or State Government departments, industrial units engaged in research and development work, registered medical institutions, hospitals, consultants, recognised chambers of commerce, productivity councils, management associations and professional bodies were allowed to import, for their own use — teaching aids, instruments and equipments required by blind including Braille typewriters, educational, scientific and technical books and journals, news magazines and newspapers as specified under list 7 of the OGL list, life saving equipment as specified in list 2 of Appendix 6 (OGL list) and their spares, family welfare equipment/instruments, appliances of specified type, finished drug preparations, life-saving and anti-cancer drugs, listed in list 3 of OGL list, homeopathic medicines in finished form or homeopathic drugs in basic form and/or of any potency, including sugar or milk in bulk and biochemic medicines, crude drugs required for making Ayurvedic or Unani medicines listed in list 4 of Appendix 6 (OGL list), pulses, spices, dates (wet or dry) rock salt, X-ray film (medical), lubricating oil for watches, clocks, time pieces, and house service meters, fishing hooks, non-fictional educational and instructional films (including video films), navigational charts of Indian coastlines which are cleared by the Chief Hydrographer to the government of India, pulses, the import contracts of which are registered with the National Agricultural Co-operative Marketing Federation (NAFED) and energy-saving conservation equipment including systems and devices working on/used for renewable and alternative sources of energy.
16.	Open General Licence No.16*@	April 1985	Actual users were allowed to import: 1) poultry vaccine (all types) by poultry farms/hatcheries approved by the Department of Agriculture, Government of India; 2) Medical Gas Cylinders of 10.2 litre water capacity or below; 3) CO_2 gas cylinders upto 15 litre water capacity for fire-extinguishers; 4) broken electric motors; 5) electromagnetic water conditioning system;6) gibberallic acid;7) grape guard paper and 8) photographic chemicals — developers, fixers intensifiers, reducers, toners and

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			cleaning agents subject to the following conditions: 1) In the case of import of poultry vaccines, the imports are made under specific recommendations of the Animal Husbandry Commissioner, Department of Agriculture, Government of India, regarding the essentiality of the material,description, quantity and value of the material. Import of medical gas cylinders by actual users (industrial) for the manufacture of medical gas (oxygen) and nitrous oxide were permitted under valid import licences issued under Drugs and Cosmetics Act, 1940. The imported medical gas cylinders were to be used 1) only for medical purposes for compressing and supplying medical gas: 2) cylinders and valves fitted thereto are imported, if the type approved by the Chief Controller of Explosives and accepted for use under the Gas Cylinder Rules, 1981 and 3) the imported cylinders are not used for any gas service other than medical gas for a period of 10 years from the date of their imports. In the case of imports of gibberellic acid and grape guard paper, imports were to be made by the Agricultural Development Corporations of Central/State Governments/Union territories, co-operative societies of farmers and recognised Associations of farmers. Broken Electric Motors were to be imported by the Metal Scrap Trade Corporation Ltd., for distribution to actual users. Similarly, Municipal Corporations, Government departments and other public sector undertakings were the eligible importers of electromagnetic water conditioning system. Actual users registered under local laws governing shops and establishments and film studios, film processing laboratories and testing laboratories were allowed to import photographic chemicals.
17.	Open General Licence No. 17 @	April 1985	Hundred per cent Export Oriented Units, fulfilling the 'actual user' condition were permitted to import capital goods (new or second-hand) including diesel generating sets prototypes, and technical samples (not exceeding two in number of each type) for product diversification, development or evaluation, raw materials, components, consumables and intermediates, spares, packing materials, material handling equipments like fork lifts, overhead cranes (for initial setting up of the unit only) and building construction materials, one number each of specified items relating to diversification, development and evaluation and photocopying paper, calculating machine, paper rolls, toner and dispersant for photocopying purposes and spares of the machines, subject to the conditions that: 1) the goods are imported in customs bonded factory: 2) the entire production and operations were by/under customs bonded factory and 3) import of items banned for imports in Domestic Tariff Areas were not allowed. In respect of import of second-hand capital goods, the importer has to produce to the customs the details of the year of manufacture of the item, its c.i.f. value, expected residual life (not less than 5 years), the nature of reconditioning repairs and opinion regarding the price asked for by the suppliers. The provisions of this OGL were extended to industrial units exporting 100 per cent of production already during the last 3 financial years, but not approved by Government as such, subject to certain conditions.
18.	Open General Licence No.18*	April 1985	Units located in Free Trade Zones, fulfilling the 'actual user' condition, were allowed to import under OGL, capital goods (new or second-hand), raw materials, components and spares, consumables, packing materials, tools, jigs, fixtures and guages or prototypes and technical samples (2 in each type) for product diversification, development or evaluation, and diesel generating set, into the free trade zone. However, items banned for imports in Domestic Tariff Areas under Appendix II were not allowed under this OGL. On the recommendations of the Development Commissioner of the concerned zone, the units could also import for their product diversification, development or evaluation, prototypes and technical samples not mentioned above. The units could also import goods received for repairs/reconditioning by them in the zone and re-export them within 3 years of the date of their despatch to him.

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19.	Open General Licence No.19	April 1985	M/s. Coal India Ltd., M/s Neyveli Lignite Corporation Ltd., M/s. Bharat Coking Coal Ltd., M/s Central Coal Fields Ltd., M/s. Eastern Coal Fields Ltd., M/s. Western Coal Fields Ltd., M/s. Central Mine Planning and Design Institute Ltd. and M/s. Singareni Coal Fields Company Ltd. were allowed to import new or second-hand capital goods against foreign exchange released by the Government. Such capital goods would be those which are permitted for imports under OGL. In the case of import of restricted capital goods, the imports can be made subject to indigenous clearance by DGTD. Import of second-hand capital goods were allowed if they were not more than seven years old and the remaining life is atleast 5 years and a certificate to this effect with other details issued by a Chartered Engineer is produced at the time of customs clearance. The importers have to fulfill the 'actual users' condition.
20.	Open General Licence No.20	April 1985	Non-resident Indians who have acquired foreign nationality and persons of Indian origin residing abroad were permitted to import capital goods, raw materials, components, consumables and spares under the facilities available to the NRI's provided 1) such persons return to India for permanent settlement for setting up an industry in India, including investments for expansion, diversification or modernisation of an existing industry or setting up a service industry. The eligible non-resident Indian importer could also import machinery and connected raw materials, consumables and spares, subject to 'actual user' condition, purchased out of his own foreign exchange earnings/resources abroad with no remittance from India, for use in the industry he proposed to set up or in the industry he invested, according to rules governing this policy in force. At the time of customs clearance, the importer was required to declare to the Director of Industries of the State in which the industry is located and the imported machinery is used. However, imports of generating sets, computer systems, office equipments, prototypes and restricted capital goods by NRIs were not allowed under OGL. There was no upper ceiling in respect of imports of capital goods meant for electronic industries manufacturing one or more of the following items: 1) electronic components (other than LSI and VLSI), 2) electronic instruments, 3) tape-recorders, 4) Two-in-ones, 5) Hi-fi equipments, 6) electronic teaching aids, 7) industrial and process control systems, 8) major sub-systems, radar, navigational aids and communication equipment and 9) electronic medical equipment. In respect of units manufacturing radars, navigational aids and communication equipment, a specific prior approval of the Department of Electronics was necessary. Manufacture of computers under this provision was not allowed. The importer was allowed to import any capital goods necessary for the manufacture of any of the above specified items/equipments and the above industry's requirements of raw materials, components, consumables and spares (other than those banned, restricted or canalised) for the first 12 months were allowed to be imported: In the case of industries not specified above, the value of the imported machinery was fixed at Rs.20 lakhs (landed cost) and the unit in which the imported machinery was used, the total capital investment in plant and machinery should not exceed the upper limit fixed for small scale industries. Those importing machinery were also allowed to import their first 12 months of requirements of raw materials, components, consumables and spares subject to a maximum of Rs.5 lakhs in c.i.f. value. Import of items under the limited permissible items list required prior approval of the DGTD/Department of Electronics. Capital investments and dividends were not allowed to be repatriated abroad and the industrial unit should have been registered with the DGTD or the State Director of Industries.

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			Imported capital goods were not allowed for sale for a period of five years. These importers were required to abide by the foreign exchange regulations and to obtain the necessary permission from the Reserve Bank of India to retain foreign currency balances abroad as required.
21.	Open General Licence No.21	April 1985	Project contractors who undertook project work abroad were allowed re-import, or import related equipments, machinery, spares, related tools and accessories which were either taken by them from India or purchased abroad with the prior permission of the Reserve Bank of India or Exim Bank/IDBI, into the country after completion of the project work. At the time of customs clearance a declaration to the effect that the above items were used in the project (project name was to be specified) and that these were either taken out of India or purchased abroad with the permission of the above banks. The permission of the above banks was required in the case of office equipments used in the project work for atleast a period of one year.
22.	Open General Licence No.22	January 1986	Hundred per cent export oriented units were allowed to import into the Domestic Tariff Area, as permitted in their letter of approval, 'rejects', which have definite manufacturing defects due either to flaws in technology, techniques or material deployed by the unit in their manufactures, and as such are not exportable. The 'rejects' include sub standard products but not spares, tools, wastes or by-products. These 'rejects' should have been invoiced and stamped as 'Rejects' at the time of clearance into the Domestic Tariff Area.
23.	Colour T.V. Picture Tubes	April 1985	Colour T.V. picture tubes, other than those permitted for imports under OGL to actual users (Industrial), were included in the Restricted list of items of raw materials, components and consumables.
24.	Import of capital goods against REP licences	May 1985	1) The maximum cif value of imports of capital goods/prototypes against REP licences by the SSI units exporting between 50 per cent and below 75 per cent of the production was fixed at Rs.15 lakhs as against Rs.45 lakhs earlier. 2) Semi-conductor lead frame/header handling equipment/attachments including those for use in bounders, for semi-conductor manufacture and laminating press for manufacture of multilayer printed circuit boards were deleted from the list of capital goods allowed for imports under OGL. 3) Cryolite (including technical)/aluminium fluoride/sodium aluminium fluoride and phenolic paper based copper clad laminates were included in the list of limited permissible items of imports. 4) Silicon rubber mail-eyes for textile industries only, low voltage audio amplifier IC's types Nos. 552, 505 for hearing aids, Cathode Ray tubes including those in the limited permissible and canalised lists, specified colour TV picture tubes with or without deflection yokes, diodes, transistors and integrated circuits in SOD/SOT/SO packages or on leadless chip carriers were included in the OGL list for imports while potentiometers and switches and nickel cadium batteries and components and parts thereof were deleted from this list. The last mentioned item was included in the limited permissible list of items.
25.	Additional licences	May 1985	1) Additional licences issued to Export/Trading Houses in 1984-85 or earlier for the import of items under the automatic permissible list and the items whose imports were not permitted under this list were made invalid effective 1985-86 in view of the abolition of the category of automatic permissible list of items. However, the additional licences issued to the Export/Trading Houses in the year 1984-85 or earlier remained valid of the import of raw materials, spares, components and consumables, under the OGL, within their overall value. Further, this

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			facility was extended to Export/Trading Houses holding REP licences endorsed in the previous year or earlier. 2) Operating system software and with main memory of not less than one megabyte and aggregate of disc/memory capacity of not less than 300 megabyte were allowed for imports by all persons for their own use (but not for stock and sale) provided the value per piece did not exceed Rs.10 lakhs and a prior clearance from the Department of Electronics was obtained which would entail the importers a lower rate of import duty. 3) Cam and Cam shaft measuring machine for inspection, manually operated with digital read out/automatically operated with computer control, was allowed as imports of capital goods, under OGL, for machine tools. 4) Terephthalic Acid (TPA) was included in the list of limited permissible items after deleting from the OGL list. 5) Import contracts in respect of imports under OGL of raw wool/greasy Wool/scoured wool (not carded or combed)/angora goat hair (mohair)/ greasy angora goat hair (mohair)/scoured angora goat hair (mohair) (not carded or combed), woollen rags/synthetic rags/shoddy wool in completely pre-mutilated condition were required to be registered with the Textile Commissioner, in advance.
26.	Imports by Units in Special Export Oriented Complexes	June 1985	Units located in the Special Export Oriented Complexes were allowed to import directly, in accordance with 100 per cent Export Oriented Units, and subject to other specified conditions, all capital goods, prototypes, technical samples, consumables, spares, packaging materials, raw materials, intermediates, components, including gold alloys, carat Gold, coloured Gold, precious metals, including platinum and palladium, sockets, frames, mountings, gems and stones except gold of 0.999 fineness and purity which will be allowed only through State Bank of India.
27.	Revised Sale Price of Gold	July 1985	The price of gold sold by State Bank of India to the release order holders under the Gold Jewellery Export Promotion and Replenishment Scheme was revised from Rs.1,304 for June 1985 to Rs.1,295 per 10 grams of pure gold (0.999 fineness) exclusive of local taxes, effective July 1, 1985.
28.	Revised Sale Price of Gold by SBI	July 1985	The sale price of gold by SBI to release order holders was revised from Rs.1295 for July to Rs.1236 per 10 grammes of pure gold (0.999 fineness) exclusive of local taxes, effective August 1, 1985.
29.	Registered Exporters	July 1985	Registered exporters, who exported new products to new markets and exports to Zaire of items under the Engineering Group, were allowed a higher rate of replenishment of 11 per cent instead of the normal 10 per cent.
30.	Export of Gold Jewellery under the GJEP/ Replenishment Scheme	August 1985	Export of gold ornaments and articles (other than coins) as defined in the Gold (Control) Act 1968 under the Gold Jewellery Export Promotion and Replenishment Scheme was permitted subject to the condition that the item exported should be made of gold of purity not less than 0.375 fineness which corresponds to 9 carats.
31.	Capital Goods Imports	September 1985	Photo composing, photo type setting system including its ancillary and related key boards, editing terminals, film/paper processors and printers were allowed for imports, under OGL for capital goods as a complete system. However, the quantum ceiling in respect of imports of key boards and editing terminals, costing less than Rs.5 lakhs in c.i.f. were fixed at 8 numbers while systems costing between 5 lakhs and Rs.10 lakhs upto 16 numbers and those costing above Rs.10 lakhs upto 32 numbers.
32.	Rayon Grade Wood Pulp	September 1985	Rayon grade wood pulp was transferred from the OGL list to the list of limited permissible items.

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33.	Imports under OGL	September 1985	1) Laboratory and reagent chemicals, other than those whose imports are restricted, canalised or in the list of limited permissible items were allowed for imports under OGL. 2) Self-adhesive tapes of all types (except those required by the electronics industry) were included in the restricted list of items under part B of Appendix 2 of the Import-Export policy of 1985-88. 3) Brazed aluminium plate and finned heat exchangers for air separation plants, optical encoders, and filters for self rescuers for mines were included in the OGL list of items.
34.	Imports by Public Sector Undertakings	October 1985	The Oil and Natural Gas Commission, the Oil India Limited and the Gas Authority of India Limited were allowed to import their requirements (except consumables) subject to clearance from the Empowered Committee on Indigenisation in the Oil Industry under the Ministry of Petroleum and Natural Gas. No clearance from the DGTD or Department of Electronics is necessary.
35.	Import of Cameras	October 1985	1) Accredited cameramen-cum-correspondents were allowed to import one camera with accessories of cif value not less than Rs.2000 on the recommendations of the Press Information Bureau subject to the conditions that only one camera is imported within a period of five years and the importer is an actual user. There was no need for indigenous clearance by DGTD. 2) Colour TV picture tubes with or without deflection yoke,of a specified nature, print catridge, ribbon catridge and correction tapes for electronic typewriters were included in the OGL list.
36.	Changes in Import Conditions	October 1985	Imports made by ONGC, the Oil India Ltd. and the Gas Authority of India Ltd. were cleared from indigenous angle by the Empowered Committee on Indigenisation in the Ministry of Petroleum and Natural Gas. Imports of permitted items by M/s. Bharat Gold Mines Ltd., were required to be cleared by the DGTD from indigenous angle and where imports of any electronic items including fascimile equipment for a cif value of Rs.5 lakhs or more and marine electronic equipment and parts irrespective of value and communications equipments for a value of more than Rs.one lakh are involved, a prior clearance from the Department of Electronics was essential. However, imports by the above organisations were exempted from indigenous clearance if, in the case of imports of equipments incidental to the execution of a service contract accorded by any of the above public sector undertakings or the Mazagaon Dock Ltd., the equipments, tools and instruments so imported are re-exported after completion of work/contract.
37.	Changes in Import Conditions	November 1985	1) Facilities for import of capital goods, raw materials, components, consumables and spares in respect of imports by companies and firms, societies and similar other corporate bodies owned fully or partly by non-resident persons who are Indians residing abroad who do not intend to return to India but wish to invest in an enterprise in India, and persons of Indian origin residing abroad and investing in an enterprise in India were not allowed. 2) Import of unset and uncut diamonds on bulk scale by the specified importers against valid REP/imprest licences attracted corresponding reduction in the value of the licence, by the concerned agency. 3) In the case of application for renewal of Export House Certificate in 1985-88 the requirement of 50 per cent of own manufacture was not insisted as the renewal was valid for only one year. The above percentage of export of own manufacture was calculated on the basis of the

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annual average exports of the base period of the preceding three financial years.

4) The export of new products and/or to new markets during any year since 1983-84 was made the basis for calculating the f.o.b. value of such exports which was reckoned at twice the actual f.o.b. value. This benefit was available only once for export of new products or to new markets as listed in the relevant Appendix (Appendix 24 of the Import-Export Policy 1985-88).

5) For the grant of first Export House Certificates to the Small Scale Units in the consortium, at least 50 per cent of the prescribed minimum f.o.b. value of exports should be direct exports of products manufactured by its member units, if otherwise acceptable.

6) For a merchant export house to become a manufacturer export house, it was made a necessary condition to achieve the prescribed export performance and growth rate as merchant exporter, before seeking the switch over.

7) Continuous decatising machine, conversion equipment for converting shuttle looms into shuttleless type and overlocking stitch sewing machine for sewing selvedges of fabrics would now be allowed as parts of textile machinery under OGL for capital goods, instead of parts of machinery for manufacture of garments/hosiery/made-ups and machinery for woollen industry, respectively.

8) Saffron was transferred from the list of limited permissible items to the list of restricted items covered under part B of Appendix-2 of the Import-Export Policy. Similarly, the following items were also included in the restricted list of the above Appendix 2:

a) Audio magnetic tape in reels, cassettes, jumbo rolls, hubs, catridges and pancakes and in any other form excluding 898.3101, 92.12, 35 mm and 16 mm and sprocketed 898.3109 tapes,

b) complete electronic models/electronic circuit blocks for electronic watches and clocks of all types and

c) integrated circuits/devices/chips of all types, for use in watches, clocks and time pieces (both digital and analogues), taper roller bearings including components thereof as parts of engineering items and alloy steel squares and other sections (excluding rounds and turbine blade flats) in grades other than high speed/stainless/heat resisting steel as part of alloy steel items.

d) Dextropropoxyphene base, D-oxyphene HCL, D-oxyphene base, umbrella ribs and components thereof (including cloth/cover cut to size), metal film/metal oxide film resistors of rating below 1.0 watt, RF/IF coils for radios and black and white TV, wire wound resistors other than ceramic encased types, all grades of carbon steel wires in galvanised (block/annealed/drawn/copper/tin/bronze/brass/plastic/vinyl coated conditions in sizes 0.46 mm dia (26 SWG) and thicker and round reed wires for manufacture of tyre beads and copper coated carbon steel wires of sizes thinner than 0.46 mm excluding bright annealed wires in sizes 0.5 mm dia (25 SWG) for manufacture of wired glass, Dobble lattice/crimped/half round/anti-flock/L shaped/Z shaped/ring traveller/flexible card clothing/binding/flat reed/comber needle/hosiery needle wires and tyre bead wires, and alloy steel sheets/strips/coils/(excluding SS/heat resisting/high speed steel HR/C.A.) alloy steel round other than those in stainless high steep steel grades and stainless melting steel scrap of certain specifications were included in the list of limited permissible items. Button cells were removed from this list and transferred to the OGL list.

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			9) Mineral Phosphates and rock phosphates were canalisd for imports through the MMTC.Sponge iron including hot briquetted iron (HBI), alloy steel (including stainless/heat resisting/high speed steel), melting scrap but other than re-rollable scrap and stainless steel scrap to specification AISI-316, CF 3M/316L, alloy 20 and HV-9, were canalised through the Metals Scrap Trade Corporation Ltd. while rolled/forged rounds, hardened and/or tampered steel strips in high carbon grade (carbon 0.6% and above), tin mill black plate in coil/sheets, were allowed for imports through the MMTC. 10) Patterns (including contour roller dies) button cells, pressure and non-pressure pipes and tubes (except those covered in the list of limited permissible items) in ERW welded pipes and tubes above 508 mm OD and seamless alloy carbon steel pipes and tubes including ball bearing steel tubes, stainless steel press moulds with both sides mirror finish for manufacture of decorative and industrial laminates, metal film/metal oxide film resistors of rating of 1.0 watts or above, RF/IF coils for colour T.V., Ceramic encased type wire wound resistors of ratings 2 to 17 watts, operating/control unit, on/off switch with ratings 5 amperes, 220/230 volts, surge cement of 20 amperes or above, components of electronic watches, clocks, and time pieces (both for digital and analogues), liquid crystal display, quartz, crystal and stepper metres, winchester drives, magnetic tape drives, optical disk drives, laser printers, printer heads/printer mechanism upto 40 columns (platten width), card readers, card punches, paper tape readers, paper tape punches, plotters and digitizers, thread taps below 1.6 mm, all grades of carbon steel items (including the types which are not listed in the limited permissible items — Appendix-3 – Part B) not elsewhere specified, and sheet bars of all grades of alloy steel not elsewhere specified, were included in the OGL list. Import of gibberallic acid was allowed by all persons who are actual users, under OGL, instead of State Agricultural Development Corporations, co-operative societies of farmers, recognised by State Governments. 11) A machinery sent abroad for repairs, free of charge on cif basis or on payment of cif not exceeding 10 per cent of the cif value of the machinery or Rs.1 lakh, whichever is less, must be the same one when reimported after repairs and not any other. 12) Zip fasteners including Zip coils which are actually used in the manufacture of made-up articles for exports by Registered Exporters, was allowed upto 3 per cent of the face value of the licence or upto Rs.50,000 which is the ceiling limit.
38.	Import of Raw Cashewnuts	November 1985	Import of raw cashewnuts by actual users (Industrial), Export/Trading House and the Cashew Corporation of India was allowed. However imports of raw cashewnuts by those other than the CCI were subject to the condition that the importers intimate, within seven days of concluding import purchase, together with a DD for an amount calculated at 0.25 per cent of the cif value of the purchase towards registration charges, to the CCI. The imports made by CCI were required to be distributed among actual users.
39.	Capital Goods for Imports	November 1985	Automatic lamp cap pin making machine, automatic lamp cap pin fixing machine and automatic lamp cap rivetting machine, automatic welding machine for lead-wire, horizontal tube drawing lines for tubular glass shells for fluorescent tubes, automatic bulb blowing machine for glass shells for electric lamps, and specified machinery for manufacture of electrical equipment were added to the list of capital goods allowed for imports under OGL.

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			2) Maleic anhydride was transferred from the list of limited permissible items to the OGL list. Flint buttons required for fusing photochromatic blanks (other than those in the Restricted list of items in Appendix-2 Part B of the Import-Export Policy, 1985-88) were included in the OGL list.
40.	Imports by Approved Hotels	November 1985	Hotels approved by the Department of Tourism were allowed to import their specialised requirements for catering to foreign tourists subject to clearance from DGTD, in respect of the amount recommended by the Departments of Tourism and Economic Affairs.
41.	Birds' Eggs	December 1985	Birds' eggs were included as one of the items for which live stock could be imported under the special licensing provisions.
42.	Import of Generating Sets	January 1986	1) Import of generating sets upto 500 KVA by Non-resident Indians and persons of Indian origin was allowed provided, they were wholly owned and used abroad for a period of at least two years before returning to India. 2) Import of goods (other than the permissible spares) of the value and type as recommended by the Empowered Committee on Fishing Trawlers (Department of Surface Transport), required by the trawler manufacturing units was allowed to the extent of 20 per cent of the cost of the trawler, for which no indigenous clearance from DGTD was necessary. 3) Cod liver oil (Pharma copoeial) was included in the list of limited permissible items. 4) Sodium borate and unlinked nylon ribbon tape from ½" to 18¼" both ends electrically welded required for the manufacture of type writer/computer ribbons, were transferred from the list of limited permissible items to the OGL list. 5) Magnetic and electro-magnetic water conditioning system, expansion valves other than 3.5 and 7.5 tons capacity suitable for R-22 and for comfort applications, anti-freeze thermostats, multi-stage thermostats, airstats and remote bulk type thermostats, hot gas bypass valves and refrigerant filter-cum-driers ½" dia connection (12.5 mm) and above and replaceable catridges were included in the OGL list.
43.	Changes in various lists	February 1986	1) Electric portable generators upto 3.5 KVA were transferred from the list of restricted items of raw material to the list of restricted items of capital goods while electric generators above 3.5 KVA were subject to normal capital goods procedure. 2) Milk powder (all types) was transferred from the list of limited permissible items of raw materials, components and consumables to the list of restricted items of raw materials. 3) Long-pepper (piper longum linn) was transferred from OGL list to the list of limited permissible items of raw materials. 4) Disperse dyes, reactive dyes, vat dyes, dyes for acrylic fibre, expansion engines and petrol/kerosene engines upto 25HP were included in the list of limited permissible items of raw materials. 5) All grades of carbon steel wires in galvanised (black/annealed/drawn/copper/tin/bronze/brass/plastic/vinyl coated conditions) in sizes 0.46 mm dia (26 SWG) and thicker or equivalent cross sectional area and round reed wires and also wires for manufacture of tyre beads excluding bright annealed wires in sizes 0.5 mm dia (25 SWG) or equivalent cross sectional area for manufacture of wired glass and carbon steel (all grades), wires galvanised/black annealed/drawn/copper coated of sizes thinner than 0.46 mm dia (26SWG) or equivalent cross sectional

1	2	3	4
			area excluding tyre bead wires, dobbie lattice/crimped/half round/anti-flock L shaped/Z shaped/ring traveller/flexible card clothing/binding/ flat reed/comber needle/hosiery needle wires were included in the list of limited permissible items of raw materials. 6) Strips for thermostatic type bimetal chlorine safety mask and sesham wood and all kinds of timber logs (whether round, square or rectangular) were included in the OGL list. 7) Consumer electronic goods were included in the list of imports of spares for after sales services.
44.	Import of Capital Goods	March 1986	Twenty-nine new items of machine tools have been included in this list of capital goods allowed for imports under OGL .

* Importer is required to maintain proper account of consumption and utilisation of the goods imported in the prescribed form and produce such account to the authorities within such time as may be specified.

@ A half-yearly statement giving the description and value of imports under this licence is required to be submitted to the sponsoring/licensing authority.

APPENDIX-II B

CHANGES IN IMPORT DUTIES
(April 1985 to March 1986)

Sr. No.	Items	Date of Announcement/ Effective Date	Duties						Remarks
			Basic		Auxiliary		Countervailing		
			Present	Previous	Present	Previous	Present	Previous	
1	2	3	4	5	6	7	8	9	10
1	Lead glass tubings and rods	a) 01.4.85	45%	100%	30%	40%	NIL	NIL	Valid till 30.9.85. Conditional.
		b) 27.9.85	45%	45%	30%	30%	NIL	NIL	Validity extended till 31.3.86. Validity has been further extended to 30.9.86 by a notification on 21.3.86.
2	Wireless apparatus, accessories and components	a) 11.4.85	NIL	40%*	NIL	40%	NIL	NIL	* For apparatus only.
		b) 19.12.85		100%					Valid till 31.12.86. Conditional.
3	Computers	12.4.85	160%		40%	40%	NIL	12%	
4	Drilling rigs and spares	16.4.85	NIL	40%	NIL	30%	NIL	NIL	Conditional. Validity extended from 31.3.86 to 31.3.87 by a notification on 21.3.86.
5	Industrial plants/projects	a) 19.4.85	20%	40%	25%	25%	NIL	NIL	Conditional. Other than Power Projects including gas turbine.
		b) 1.3.86	30%	20%	25%	25%	NIL	NIL	
6	Power projects	19.4.85	NIL	NIL	25%	25%	NIL	NIL	Continuation of exemption.
7	Titanium sponge	30.4.85	25%	25%	30%	30%	NIL	NIL	Valid till 30.4.87. Validity period extended.
8	Silkworm seeds	01.5.85	NIL	60%	NIL	40%	NIL	12%	Valid till 30.4.88.
9	Butadiene	03.5.85	35%	35%	30%	30%	NIL	NIL	For manufacture of SBR. Validity period extended till 30.4.86.
10	87 items for leather industry	07.5.85	25%	40%	30%	30%	NIL	10%	The list of items enlarged.
11	Nylon tyre yarn	23.5.85	75%	100% + Rs.11/- per kg.	40%	40%	Rs.70 per kg.	Rs.70 per kg.	Conditional.
12	Tantalum powder	24.5.85	NIL	60%	NIL	40%	NIL	12%	Conditional.
13	Specified inputs for electronics industry	24.5.85	40%	*	30%	*	NIL	12%	*Rates vary.
14	Piezo electric elements	a) 25.5.85	100%	50%	40%	30%	NIL	NIL	Exemption withdrawn.
		b) 17.2.86	50%	100%	40%	40%	NIL	NIL	
15	Computer keyboards	25.5.85	5%	100%	NIL	40%	NIL	12%	Conditional. This item has been included and the list enlarged.
16	Crude napthalene	27.5.85	NIL	40%	NIL	30%	NIL		Item added.
17	Aluminium ingots	a) 27.5.85	10%	60%	15%	30%	18.7%	18.7%	Valid till 30.11.85.
		b) 29.11.85	10%						Validity extended till 31.12.85.
		c) 20.12.85	25%	10%	25%	15%	NIL	NIL	
18	Coal tar pitch	31.5.85	15%	15%	NIL	NIL			Exemption extended till 31.5.86.
19	Glass chattons	01.6.85	100%	100%	40%	40%	NIL	12%	
20	1) Complete watch case	01.6.85	10%	100%	30%	40%	NIL	12%	For manufacture of mechanical/quartz analog wrist watches. Conditional.
	2) Spring bar/side bar	01.6.85	10%	100%	30%	40%	NIL	12%	
21	Nylon filament yarn and polyester filament yarn	17.6.85	NIL	100%	NIL	25%			Conditional.
22	Components for heavy/medium/light commercial motor vehicles, tractors and goods other than basic raw materials for manufacture of such components	a) 28.6.85	25%	25%	20%	20%	NIL	NIL	Partial exemption extended till 31.12.86.
		b) 6.11.85	25%	25%	20%	20%	NIL	NIL	Changes in conditions.
		c) 30.1.86	25%	25%	20%	20%	NIL	NIL	-do-
23	Coking coal	28.6.85	NIL	NIL	NIL	NIL	NIL	NIL	Exemption extended upto 30.6.86. (Coking coal of ash content below 12%)
24	Jumbo rolls of graphic art films and photographic paper	28.6.85	60%						Exemption extended till 30.6.88.
25	Sponge iron	1.7.85	NIL	70%	20%	30%	NIL	NIL	Valid till 30.6.86. Conditional.
26	Specified carbon steel billets	1.7.85	15%	45%	20%	30%	Rs.365/- P.M.T.	Rs.365/- P.M.T.	Valid till 30.6.86. Conditional.
27	Aircraft engines, accessories and components for repairs or overhauling	1.7.85	NIL		NIL		NIL		Conditional.
28	Components for manufacture of forklift trucks *	3.7.85	40%	60%	25%	40%			* With capacity above 10 tonnes. Conditional. Valid upto 30.6.86.
29	1) 24 items of machinery and equipment for gems and jewellery industry	9.7.85	15%	45%	25%	25%	NIL	NIL	Conditional.
	2) 74 specified machines and equipments for gems and jewellery	1.3.86	25%	*	NIL	25%	NIL	NIL	* Rates vary. On some 25% and on others 45%. Conditional.
30	24 items of raw material and components for leather industry.	9.7.85	40%	*	NIL		NIL	*	* Rates vary.
31	10 machines for leather industry	9.7.85	25%	40%	30%	30%	NIL	10%	The list of items further enlarged to 130.

1	2	3	4	5	6	7	8	9	10
32	17 life saving drugs	9.7.85	NIL		NIL		NIL		
33	Wind operated electricity generators and battery chargers	15.7.85	NIL	40%	NIL	25%	NIL	10%	For installation of individual units. Conditonal.
34	Low density polythylene moulding powder and granules	a) 29.7.85	60%	100%	35%	40%	12%	12%	
		b) 1.3.86	80%	60%	40%	35%	12%	12%	For high density, the basic customs duty is 60%.
35	Power tillers	01.8.85	100%	NIL	40%	30%	12%	12%	Exemption in basic duty withdrawn.
36	Pig iron	a) 01.8.85	10%	25%	30%	30%	Rs.80/- PMT	Rs.80/- PMT	Phosphorous content less than 0.1% by weight. Valid upto 31.7.86
		b) 9.12.85	25%						
		c) 17.2.86	25%						Valid till 31.12.86.
37	Dead burnt magnesite	01.8.85	45%	40%	NIL	40%	12%	12%	Having silicon content less than 4% by weight. Valid till 31.7.86.
38	Rifampicin syrup, tablets/INH capsules/tablets, Caphalaxin & cloxecillin syrups	13.8.85	NIL	100%	NIL	40%	NIL	20%	
39	1) Raisins (other than munnacca black)	13.8.85	*	200%(S) 190%(P)	NIL	NIL	NIL	NIL	* Standard rate (S) - Rs.23 per kg. Preferential rate (P) Rs.21 per kg.
	2) Munnacca black		**	200%(S) 190%(P)	NIL	NIL	NIL	NIL	** Standard rate (S) - Rs.12/- per kg Preferential rate (P) - Rs.11/- per kg
40	Sultanas dried	13.8.85	Rs.22/- per kg.		NIL				
41	Crude palm kernel oil	16.8.85	30%	60%	NIL	40%	NIL	NIL	Valid till 31.3.86. For manufacture of fatty alcohols.
42	8 items of drug intermediates	16.8.85	70%	70%	40%	40%	NIL	12%	
43	Pen point Alloy (Nibpoints)	30.8.85	NIL	100%	NIL	40%	NIL	NIL	Conditional
44	Ivory (unmanufactured)	30.8.85	NIL	100%(S) 90%(P)	NIL	40%	NIL	12%	Conditional.
45	Glass shell of special sizes	a) 30.8.85	10%	10%	NIL	NIL	NIL	NIL	Validity period extended upto 31.3.86. For manufacture of electric lamps.
		b) 11.3.86	15%	10%	NIL	NIL	NIL	NIL	
46	Soda Ash	01.9.85	25%	15% & 35%	30%	30%	15% + 5% of CVD	15% + 5% of CVD	Rates were different for light and dense varieties. Valid till 31.3.86.
47	Video cassette/tapes recorded with educational and higher technical education programme	a) 02.9.85	NIL		NIL		NIL		Imported by UGC. Conditional. Valid till 31.3.87.
	Video cassettes/tapes recorded with university/higher/advanced technical education programme	b) 24.9.85	NIL		NIL		NIL		Imported by university or research institution. Valid till 31.3.87.
		c) 08.10.85	NIL		NIL		NIL		Imported by a research student. Valid till 31.3.87.
48	Drugs, medicines and medical equipment for Bhopal Gas tragedy	02.9.85	NIL		NIL		NIL		
49	Certain variety of wood imported from Burma	03.9.85	NIL	NIL	NIL	30%	NIL	NIL	Basic customs duty exempted since 1976.
50	Specified textile machinery	a) 11.9.85	20%	20%	5%	5%	NIL	NIL	Exemption till 28.2.86.
		b) 1.3.86	25%	20%	5%	5%	NIL	NIL	Exemption extended till 31.3.87.
51	Specific raw materials/components/ sub-assemblies for manufacture of electronic items	16.9.85	25%	100%	NIL	40%	NIL	12%	Conditional. Valid upto 31.3.87.
52	Viscose staple fibre	a) 18.9.85	55%	35%	5%	5%	NIL	NIL	
		b) 04.10.85	55%	40%	5%	5%	NIL	NIL	On improved varieties like HWM, Polynosic, etc.
53	Developed and exposed films to be used for printing and reproduction of books, journals, periodicals and news papers	24.9.85	NIL	60%	NIL	40%	NIL		
54	Dimethyl terephthalate	a) 30.9.85	150%(S) 140%(P)	100%(S) 90%(P)	40%	40%	12%	20%	Exemption withdrawn.
		b) 17.2.85	150% + Rs.10/- per kg. (S) 140% + Rs.10/- per kg. (P)	150%(S) 140%(P)	40%	40%	12%	20%	Effective from 1.3.86.
		c) 1.3.86	150%(S) 140%(P)	150% + Rs.10(per kg(s) 140% + Rs.10 per kg.(P)	40%	40%	12%	20%	The duty is only 140% if imported from Mauritius, Seychelles or Tongo.
55	Terephthalic acid	a) 30.9.85	150%	100%	40%	40%	NIL		Exemption withdrawn.
		b) 17.2.86	150% + Rs.10/- per kg.	150%	40%	40%	NIL		Effective from 1.3.86.
		c) 1.3.86	150%	150% + Rs.10/- per kg.					

1	2	3	4	5	6	7	8	9	10
56	Steel plates and aluminium alloys	30.9.85	NIL	300%*	NIL	40%	NIL	NIL* 28.6%**	* Steel Plates Valid till 31.3.86. ** Conditional. ** On aluminium.
57	Fogging machines	16.10.85	15%	60%	NIL	40%	NIL		Conditional. Validity has been extended to 31.3.87 from 31.3.86 by a notification on 21.3.86.
58	Edible Oils	29.10.85	NIL	NIL	NIL	NIL	NIL	NIL	Imported under a Government agreement as free gift. Validity has been extended to 31.3.87 from 31.3.86 by a notification on 21.3.86.
59	Briquetted Iron	a) 30.10.85 b) 17.2.86	NIL NIL	60% NIL	20% 20%	40% 20%	NIL NIL		Valid till 31.3.86.
60	Photographic cameras, cinematographic cameras and accessories	05.11.85	NIL	100%	NIL	40%	NIL	20% + 5% of CVD	Conditions relaxed.
61	1) Ball bearing less than 60 mm bore diameter 2) Roller bearings less than 85 mm bore diameter	06.11.85	150% + * 150% + *	150% 150%	40% 40%	40% 40%	15% 15%	15% 15%	* Rates vary from Rs.6 to Rs.17 as per weight. * Rates vary from Rs.15 to Rs.80 as per weight.
62	Denatured ethyl alcohol	22.11.85	NIL	NIL	NIL	NIL	NIL	NIL	Conditional. Exemption period extended till 31.3.86. The exemption has been further extended to 30.11.86 by a notification on 21.3.86.
63	Components of electronic modules of digital/analogue/diginia and similar combination type electronic wrist watches	2.12.85	15%	50%	NIL	25%	NIL	12%	Conditional.
64	Components of fuel efficient cross country motor vehicles	5.12.85	25%	100%	25%	40%	NIL	12%	Conditional. Valid till 31.12.90.
65	Components for manufacture of fuel efficient four wheeled cross country motor vehicles	5.12.85	25%	100%	25%	40%	NIL	12%	Conditional. Valid till 31.12.90.
66	Goods (other than raw material) for manufacture of components of motor vehicles of specified descriptions	5.12.85	25%	100%	25%	40%	NIL	12%	Conditional. Valid till 31.12.90.
67	Specified equipments for accredited correspondents of foreign news agencies etc.	6.12.85	40%	100%	40%	40%	NIL	30%	Conditional. Valid till 31.12.90.
68	Acetic Acid	a) 23.12.85 b) 17.2.86	30% 30%	70% 70%	40% 40%	40% 40%	15% 15%	15% 15%	Valid till 31.3.86.
69	Components for fuel efficient motor cars of engine capacity exceeding 1000 C.C.	24.12.85	25%	100%	15%	40%	NIL	12%	Conditional. Valid till 31.12.90.
70	Match/splints (undipped)	31.12.85	25%	60%	NIL				Used for match making.
71	Zinc concentrates	a) 2.1.86 b) 1.3.86	NIL 40%	40% NIL	15% 15%	25% 25%	12% 12%	12% 12%	Exemption withdrawn.
72	Equipment for kitchen/health club/laundry/house keeping/miscellaneous	2.1.86	15%				NIL		Conditional, only for setting up or for expansion of hotel.
73	Steel sheets/blink/body panels of cars/vans	a) 23.1.86 b) 17.2.86 c) 27.2.86	25%		25%		NIL		Conditional. Valid till 31.12.86.
74	Spinning waste (hard waste)	7.2.86	100%	60%	40%	40%			
75	Bonafide commercial samples and prototype of goods	7.2.86	NIL		NIL		NIL		Conditonal. Effective from 28.2.86.
76	Ivory powder and waste	17.2.86	60%	100 %	40%	40%	NIL	NIL	Effective from 28.2.86.
77	Betelnuts	17.2.86	Rs.3.07(S) Rs.3.00(P)	200%(S) 190%(P)			NIL	NIL	Effective from 28.7.86.
78	Plants and parts thereof	17.2.86	60%	100%	40%	40%			Used primarily for pharmacy, insecticidal, fungicidal or similar purpose. Effective from 28.2.86.
79	Molasses	17.2.86	60%	100%	40%	40%	NIL	NIL	Effective from 28.2.86. Excludes flavoured or coloured.
80	1. Kernite and colemanite 2. Sulphur	17.2.86	40% NIL‡	100 %	NIL	40%	12% 12%	12% 12%	Effective from 28.2.86. ‡ in some cases 10%. Excludes Insoluble sulphur.
81	Mineral phosphate (natural)	17.2.86	NIL	100%	NIL	40%	12%	12%	For use in fertilizers. Effective from 28.2.86.
82	1) Mercury 2) Bleaching paste/powder	17.2.86	60% 60%	100% 100%	40% 40%	40% 40%	12%	12%	Effective from 28.2.86 Effective from 28.2.86.
83	Goods imported for saccharine	17.2.86	Rs.20/- per kg.	100%		40%			Effective from 28.2.86.
84	Mineral tanning and tanning extracts of vegetable origin	17.2.86	60%	100%	NIL	40%			Effective from 28.2.86. Excludes gambier.
85	Urea	17.2.86	NIL	60%	NIL	40%			Effective from 28.2.86.
86	Chemicals	17.2.86	NIL	60%		40%	12%	12%	Specific chemicals used as measure or in production of complex fertilizers. Effective date 28.2.86.

1	2	3	4	5	6	7	8	9	10
87	Organic surface-active agents, preparations & lubricating preparations	a) 17.2.86	100%**	*	40%		*	*	** For specific organic surface active agent and preparations, the custom duty is 70%. Effective from 28.2.86. * Rates vary.
		b) 27.2.86							
88	Specific homeopathic medicines	17.2.86	20%	20%	30%	30%	NIL	NIL	
89	1) Cinematographic film unexposed	17.2.86	Re.1/- per linear meter	*	40%	40%	12%	12%	* Rates vary. Concessional rates when imported from Burma.
	2) Cinematographic film exposed		40%	100%	40%	40%	12%	12%	
90	Natural raw rubber*	17.2.86	20%	20%	30%	30%	NIL	NIL	*Other than preparations.
91	1) Raw rubber	17.2.86	60%	100%	25%	40%	12%	12%	
	2) Synthetic raw rubber	17.2.86	60%	100%	40%	40%	10%	10%	
92	1) News print	17.2.86	*	60%+ Rs.1000/- per tonne	40%	40%	NIL	NIL	*Rates vary as per the type of newsprint.
	2) Printing & writing paper		60%	100%	40%	40%			
93	1) Silkworm gut	17.2.86	100%	100% + Rs.8.80 per kg.	40%	40%			
	2) Other than silkworm gut		50%+ Rs.8.50 per kg.	*					* Rates vary.
94	Combed wool	17.2.86	60%	100% + Rs.10/- per kg.	40%	40%	Rs.8.30 per kg.	Rs.8.30 per kg.	Effective from 28.2.86. Excludes wool tops.
95	Fabrics*	17.2.86	100%	100% + Rs.18.70 per kg.	40%	40%			Effective from 28.2.86. *Excludes silk fabrics.
96	Optical glass and its elements	17.2.86	60%	100%**			35%	35%	Effective from 28.2.86. Not optically worked. **For corrective spectacles.
97	1) Real pearl (raw and unworked)	17.2.86	40%	60%		40%	NIL	NIL	Effective from 28.2.86.
	2) Waste and scrap of metals of platinum group		60%	60%		40%			
	3) Currency coins of Govt. of India		NIL		NIL		NIL		
98	Rock drilling bits	17.2.86	40%	60%		40%	15%	15%	Effective from 28.2.86.
99	Shuttle cars for use in mines & specified tractors	17.2.86	40%	*			15%**	15%**	* Rates vary. ** Rates vary as per motor capacity. Effective from 28.2.86.
100	Prefabricated building	17.2.86	100%	300%		40%	12%	12%	Effective from 28.2.86. Other than that made of stainless steel.
101	Worked unhardened gelatin and articles thereof	17.2.86	60%	100%		40%	12%	12%	Effective from 28.2.86.
102	1) Pistachio nuts	17.2.86	100%(S) 90%(P)	200%(S) 190%(P)	40%	40%	NIL	NIL	
	2) Dates		100%(S) 90%(P)	200%(S) 190%(P)	40%	40%	NIL	NIL	Effective from 28.2.86.
103	Metallic ores and concentrates	17.2.86	40%	*		40%	NIL	NIL	Effective from 28.2.86. * Rates vary from 40% to 100 %
104	1) Motor spirit	17.2.86	NIL	100% *		40%	**	**	Conditional. Effective from 28.2.86.
	2) Kerosene		NIL	100%		40%	**	**	* If the excise duty leviable is
	3) Aviation turbine fuel		NIL	100%		40%	**	**	higher, then the rate of excise duty.
	4) High speed diesel oil & vapourising oil		NIL	100%		40%	**	**	** Different rates for different description.
	5) Diesel oil		NIL	100%		40%	**	**	
	6)Furnace oil		NIL	100%		40%	**	**	
105	Aluminium and articles thereof	17.2.86	*	**	40%	40%	12%	12%	* Rates vary between 50% to 60%. ** Rates vary between 60% to 100%
106	Lead, zinc & articles thereof	17.2.86	85%	100%	40%	40%	12%	12%	Effective from 28.2.86.
107	Specific goods for handicapped/ disabled	17.2.86	NIL	*	NIL	NIL	NIL	NIL	Conditional. * Rates vary.
108	Casting & forging of iron & steel	17.2.86	70%	300%	40%	40%			Effective from 28.2.86.
109	Cameras used for medical & surgical purpose	17.2.86	40%				NIL	30%	Effective from 28.2.86.
110	Electric wires, cables, bars, strips & electrical apparatus	17.2.86	70%	100%	40%	40%	20%	30%	Effective from 28.2.86.
111	Raw cashew nuts & bedana variety of pomegranates.	17.2.86	NIL	200%(S) 190%(P)	NIL		NIL	NIL	Effective from 28.2.86.
112	Almonds, Hard Shell	17.2.86	Rs. per kg. 15(S) 14(P)	200%(S) 190%(P)	NIL	NIL	NIL	NIL	Effective from 28.2.86.
	Soft shell		Rs. per kg. 28(S) 26(P)	200%(S) 190%(P)					
	Kernel		Rs per kg 56(S) 52(P)	200%(S) 190%(P)					

1	2	3	4	5	6	7	8	9	10
113	Specified food preparing, packing machines, etc.	17.2.86	10%				NIL		Effective from 28.2.86. Valid till 31.3.86.
114	Crude iodine	01.3.86	25%	100%	NIL	40%	NIL	12%	To be used for iodinisation of salt. Conditional.
115	Waste of wool & woollen rags	01.3.86	20%		NIL		NIL	NIL	
116	GATT bound articles	01.3.86							
	i) Power cranes		40%	50%	NIL		NIL	NIL	
	ii) Petroleum and gas well drilling equipments & parts		45%	50%*	NIL		NIL	NIL	* 40% for parts thereof.
	iii) Papermaking machinery/ components & parts		40%	50%*	NIL		NIL	NIL	* 40% for parts thereof.
	iv) Components, parts of machine tools for working metals		35%	40%	NIL		NIL	NIL	
	v) Turbo alternators and parts		40%	*	NIL		NIL	NIL	* Rates vary.
117	Four components for specific textile machinery	01.3.86	25%						Conditional.
118	Machinery for processing/packing of marine food.	01.3.86	40%		NIL			12%	
119	Ships for breaking	01.3.86	Rs.1400 per LDT	40%+ Rs.1400 per LDT	NIL		NIL		
120	Consumable goods	01.3.86	NIL	NIL	NIL	NIL	NIL	NIL	When imported by public funded research institutions. Conditional.
121	Specified medical equipments	01.3.86	40%	60%	NIL	40%	NIL	12%	The list has 111 medical equipments now.
122	Specified components for manufacture of specified electromedical equipment	01.3.86	40%	*	NIL		NIL	12%	* Rates vary.
123	6 specified testing machinery, instruments.	01.3.86	10%		25%				
124	23 specified drug intermediates	01.3.86	70%	70%	40%	40%	NIL	12%	
125	Blades for leather shaving machines	01.3.86	40%	60%	NIL		NIL	15%	
126	Wattle Bark	01.3.86	40%	40%	NIL	30%	NIL	NIL	
127	Polyproplene	01.3.86	60%		40%				
128	Wool (raw)	01.3.86	20%	30%	NIL	NIL			
129	5 items of life saving equipments	01.3.86	NIL	NIL			NIL		The list has been enlarged.
130	Nails, tacks, staples	07.3.86	70%		40%	40%			Conditional.
131	Formic acid	07.3.86	70%	100%	40%	40%			
132	Dodecyl Benzene	07.3.86	70%	100%	40%	40%			
133	Cork wood and cork waste	21.3.86	50%	60%	30%	40%	NIL	NIL	Validity extended till 30.9.86.

Notes: 1. On May 24th 1985 notifications were issued fixing auxiliary duty and granting exemptions on items. The slabs however, remained the same.
2. In the Budget, 1986-87 the structure of auxiliary duty was rationalised to only three slabs compared to eleven slabs prevalent earlier.
3. 'S' represents standard rate of duty 'P' represents preferential rate of duty.

Source: Customs Notifications, Ministry of Finance, Government of India.

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